



REDEVELOPMENT AGENCY
STAFF REPORT

MEETING DATE: May 28, 2003

APRIL 2003 FINANCE & INVESTMENT REPORT

RECOMMENDED ACTION:

Accept and File Report

EXECUTIVE SUMMARY: Attached is the monthly Finance and Investment Report of the Redevelopment Agency of the City of Morgan Hill for the month of April 2003. The report covers activity for the first ten months of the 2002/2003 fiscal year. A summary of the report is included on the first page for the Board's benefit.

The Redevelopment Agency monthly Finance and Investment Report is presented to the Agency Board and our Citizens as part of our ongoing commitment to improve and maintain public trust through communication of our finances, budget and investments. The report also serves to provide the information necessary to determine the adequacy/stability of financial projections and develop equitable resource/revenue allocation procedures.

This report covers all fiscal activity of the Redevelopment Agency.

FISCAL IMPACT: As presented.

Agenda Item # 1

Prepared By:

Finance Director

Submitted By:

Executive director

**REDEVELOPMENT AGENCY OF
THE CITY OF MORGAN HILL**

Monthly Financial and Investment Reports

April 30, 2003 – 83% Year Complete



**CITY OF MORGAN HILL
REDEVELOPMENT AGENCY**

Prepared by:

FINANCE DEPARTMENT



REDEVELOPMENT AGENCY OF THE CITY OF MORGAN HILL, CALIFORNIA
FINANCIAL STATEMENT ANALYSIS - FISCAL YEAR 2002/03
FOR THE MONTH OF APRIL 2003 - 83% OF YEAR COMPLETE

Revenues

Through April, the Redevelopment Agency received \$13,836,882 in property tax increment revenues; this is expected. However, the Redevelopment Agency is required to pay \$581,354 of this total back to the County in May 2003, as required by a State law enacted to help balance the 2002/03 State budget prior to adoption of that budget. (That amount was paid to the County on May 9.) Most property taxes are received in December and April. The Redevelopment Agency, as of April 30, 2003, has collected \$100,000,000 in tax increment revenue under the original plan and \$53,208,595, net of pass-through obligations to other agencies, toward the plan amendment cap of \$147,000,000. Since the \$100 million tax increment cap for the original plan was reached during 1999/2000, all tax increment revenues collected during 2002/2003 are being collected under the plan amendment.

Interest and rental income of \$407,321 reflects interest income received through the first three quarters ended March 31. Interest earnings for the month of April will be posted in June when fourth quarter earnings are allocated. 'Other Revenues' represent charges for current services and total \$46,094.

Expenditures

Total Redevelopment Agency Capital Projects expenditures and encumbrances equal \$17,373,461 and are 54% of budget. Of this total, \$1,911,991 represents encumbrances for capital projects and other commitments. Expenditures for administrative costs for employee services, supplies, and contract services were 75% of budget. During July, the Agency made a \$2.55 million installment payment towards the purchase of the Sports Complex. During September, the Agency spent \$452,977 on property acquisitions related to the Indoor Recreation Center and Butterfield Blvd. Phase IV projects. During October, the Agency placed \$100,000 into escrow for the purchase of the Courthouse Facility property. During November, the Agency placed approximately \$318,000 into escrow for purchase of property for the Butterfield Blvd. Phase IV street project. All Capital Projects expenditures during 2002/03 have used monies collected under the plan amendment.

Budgeted expenditures plus encumbrances for Housing are at 31% of the budget for a total of \$2,107,291. Although certain loans and grants for various housing loan and grant programs have been committed, the related funds have not yet been drawn down by the recipients and, hence, are not reflected in the expenditures. All of the 2002/03 housing related expenditures have been funded with tax increment collected under the plan amendment.

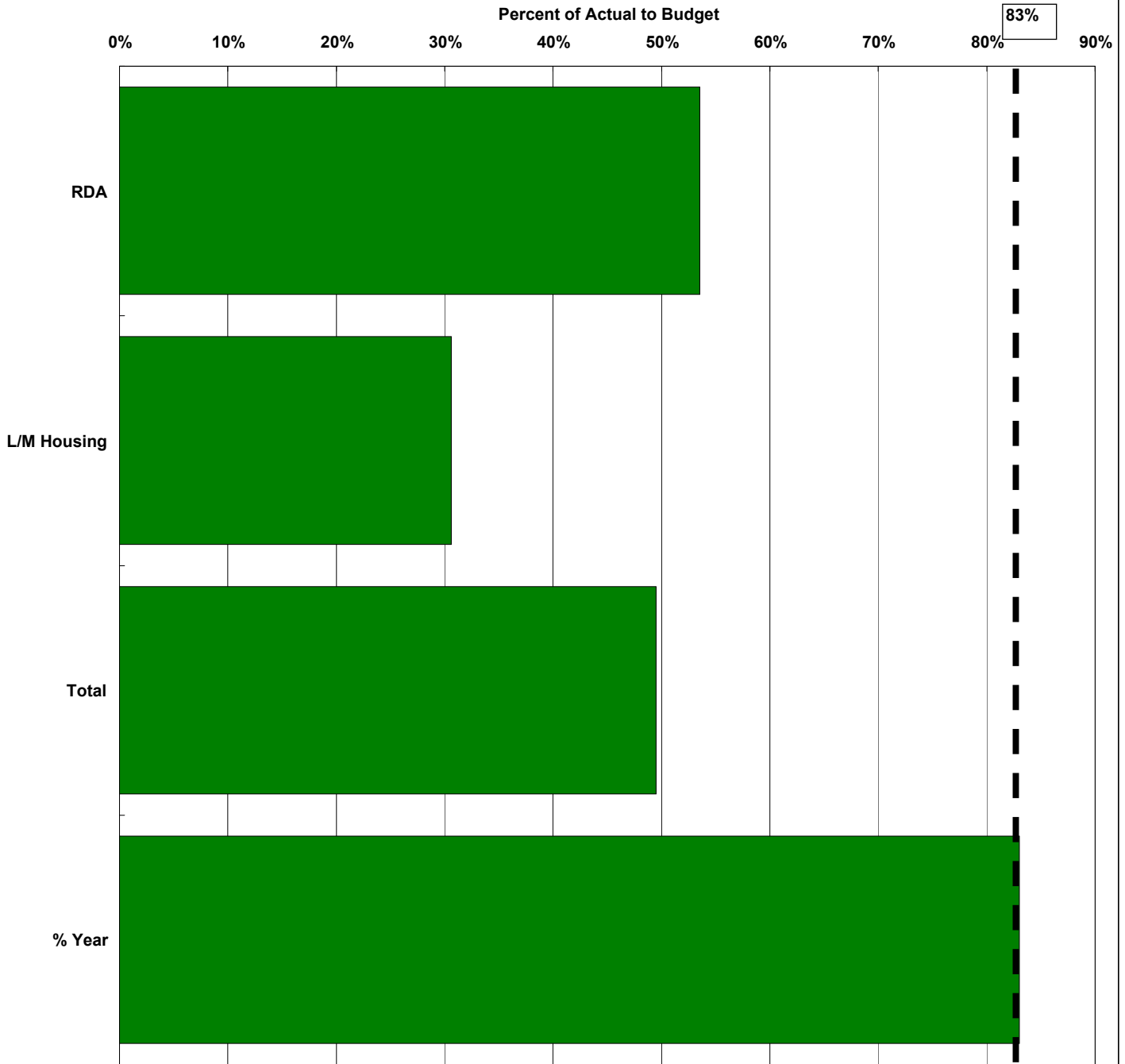
Fund Balance

The unreserved fund balance of \$16,282,113 for the Capital Projects Fund at April 30, 2003, consisted entirely of monies collected under the plan amendment. The unreserved fund balance of \$16,282,113 at April 30 included future obligations to pay an additional \$6.9 million for the Courthouse Facility, an additional \$3,250,000 for purchase of the Gundersen property, an additional \$2.55 million for a sports complex, and \$1.61 million for the Lomanto property should the Agency agree to execute its option to purchase in accordance with the agreement. If all these future commitments are subtracted from the \$16,282,113, the remaining unreserved fund balance at April 30 would be \$1,972,113. However, these commitments are expected to be paid out over the next 3 years and to reduce current resources by only an additional \$3.4 million in 2002/03.

The unreserved fund balance of \$5,327,707 for the Housing Fund at April 30 consisted of funds all collected under the plan amendment.



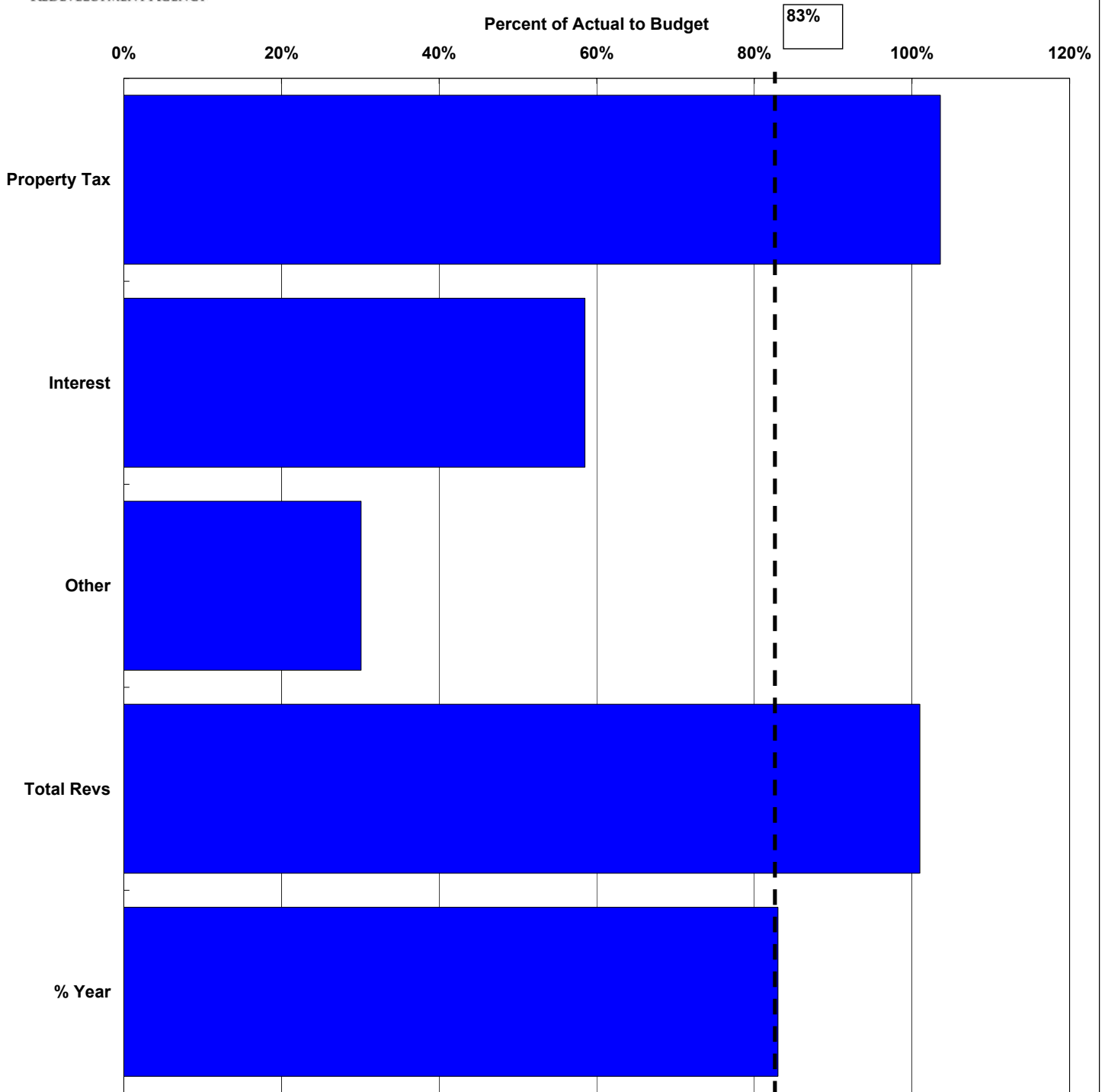
Redevelopment Agency YTD Expenditures



Expenditure Category	Budget	Actual Plus Encumbrances	% of Budget
CAPITAL PROJECTS	\$32,464,906	\$17,373,461	54%
HOUSING	6,888,925	2,107,291	31%
TOTALS	\$39,353,831	\$19,480,752	50%



Redevelopment Agency YTD Revenues



REVENUE CATEGORY	BUDGET	ACTUAL	% OF BUDGET	PRIOR YEAR TO DATE	% CHANGE FROM PRIOR YEAR
PROPERTY TAXES	\$15,522,000	\$16,086,307	104%	\$13,836,882	16%
INTEREST INCOME/RENTS	\$695,853	\$407,321	59%	\$818,495	-50%
OTHER REVENUE	\$153,090	\$46,094	30%	\$643,412	-93%
TOTALS	\$16,370,943	\$16,539,722	101%	\$15,298,789	8%



Redevelopment Agency
 Fund Balance Report - Fiscal Year 2002/03
 For the Month of April 2003
 83% of Year Complete

Fund No.	Fund	Fund Balance 06-30-02	Revenues		Expenditures		Year to-Date Deficit or Carryover	Ending Fund Balance		Cash and Investments	
			YTD Actual	% of Budget	YTD Actual	% of Budget		Reserved ¹	Unreserved	Unrestricted	Restricted
317	CAPITAL PROJECTS	\$22,668,149	12,934,531	101%	15,461,470	48%	(2,526,939)	3,859,098	16,282,113	18,176,298	
327/328	HOUSING	\$20,823,005	3,605,191	102%	2,042,906	30%	1,562,285	17,057,582	\$5,327,707	5,395,129	
TOTAL CAPITAL PROJECT FUNDS		\$43,491,154	16,539,722	101%	17,504,376	44%	(964,654)	20,916,680	21,609,820	23,571,427	
SUMMARY BY FUND TYPE											
	CAPITAL PROJECTS GROUP	\$43,491,154	16,539,722	101%	17,504,376	44%	(964,654)	20,916,680	21,609,820	23,571,427	
TOTAL ALL GROUPS		\$43,491,154	16,539,722	101%	17,504,376	44%	(964,654)	20,916,680	21,609,820	23,571,427	
TOTAL CASH AND INVESTMENTS										23,571,427	

¹ Amount reserved for encumbrances, fixed asset replacement, long-term receivables



Redevelopment Agency
Year to Date Revenues - Fiscal Year 2002/03
For the Month of April 2003
83% of Year Complete

FUND REVENUE SOURCE	ADOPTED BUDGET	AMENDED BUDGETED	CURRENT YTD ACTUAL	% OF BUDGET	PRIOR YTD	INCREASE (DECREASE) FROM PRIOR YTD	% CHANGE
CAPITAL PROJECTS FUNDS							
317 CAPITAL PROJECTS							
Property Taxes & Supplemental Roll	12,084,000	12,084,000	12,614,818	104%	10,846,112	1,768,706	16%
Development Agreements	-	-	-	n/a	-	-	n/a
Interest Income, Rents	595,853	595,853	274,470	46%	679,255	(404,785)	-60%
Other Agencies/Current Charges	<u>152,500</u>	<u>152,500</u>	<u>45,243</u>	<u>30%</u>	<u>642,762</u>	<u>(597,519)</u>	<u>-93%</u>
TOTAL CAPITAL PROJECTS	<u>12,832,353</u>	<u>12,832,353</u>	<u>12,934,531</u>	<u>101%</u>	<u>12,168,129</u>	<u>766,402</u>	<u>6%</u>
327/328 HOUSING							
Property Taxes & Supplemental Roll	3,438,000	3,438,000	3,471,489	101%	2,990,770	480,719	16%
Interest Income, Rent	100,000	100,000	132,851	133%	139,240	(6,389)	-5%
Other	<u>590</u>	<u>590</u>	<u>851</u>	<u>144%</u>	<u>650</u>	<u>201</u>	<u>31%</u>
TOTAL HOUSING	<u>3,538,590</u>	<u>3,538,590</u>	<u>3,605,191</u>	<u>102%</u>	<u>3,130,660</u>	<u>474,531</u>	<u>15%</u>
TOTAL CAPITAL PROJECTS FUNDS	16,370,943	16,370,943	16,539,722	101%	15,298,789	1,240,933	8%



Redevelopment Agency
Year to Date Expenditures - Fiscal Year 2002/03
For the Month of April 2003
83% of Year Complete

FUND NO.	FUND/ACTIVITY	THIS MONTH ACTUAL EXPENDITURES	ADOPTED BUDGET	AMENDED BUDGET	YTD EXPENDITURES	OUTSTANDING ENCUMBRANCES	TOTAL ALLOCATED	% OF TOTAL TO BUDGET
317 CAPITAL PROJECTS								
	BAHS Administration	92,298	1,234,039	1,379,801	925,948	106,742	1,032,690	75%
	BAHS Economic Development	23,133	5,348,370	5,396,069	479,758	54,479	534,237	10%
	BAHS CIP	<u>349,968</u>	<u>12,771,000</u>	<u>25,689,036</u>	<u>14,055,764</u>	<u>1,750,770</u>	<u>15,806,534</u>	<u>62%</u>
	TOTAL CAPITAL PROJECTS	<u>465,399</u>	<u>19,353,409</u>	<u>32,464,906</u>	<u>15,461,470</u>	<u>1,911,991</u>	<u>17,373,461</u>	<u>54%</u>
327 AND 328 HOUSING								
	Housing	<u>153,932</u>	<u>6,313,976</u>	<u>6,888,925</u>	<u>2,042,906</u>	<u>64,385</u>	<u>2,107,291</u>	<u>31%</u>
	TOTAL HOUSING	<u>153,932</u>	<u>6,313,976</u>	<u>6,888,925</u>	<u>2,042,906</u>	<u>64,385</u>	<u>2,107,291</u>	<u>31%</u>
TOTAL CAPITAL PROJECT FUND		619,331	25,667,385	39,353,831	17,504,376	1,976,376	19,480,752	50%



Redevelopment Agency of the City of Morgan Hill
Balance Sheet Report - Fiscal Year 2002/03
For the Month of April 2003
83% of Year Complete

	CAPITAL PROJECTS (Fund 317)	Housing (Fund 327/328)
ASSETS		
Cash and investments:		
Unrestricted	18,176,298	5,395,129
Accounts Receivable	34,101	9,445
Loans and Notes Receivable ¹	2,876,027	22,570,048
Advance to Other Funds		
Fixed Assets ²	71,049	
Other Assets		
Total Assets	21,157,475	27,974,622
LIABILITIES		
Accounts Payable and Accrued Liabilities	11,047	10,319
Deferred Revenue ³	999,969	5,576,852
Accrued Vacation and Comp Time	5,249	2,162
Total liabilities	1,016,265	5,589,333
FUND BALANCE		
Fund Balance		
Reserved for:		
Encumbrances	1,911,991	64,385
Advance to Other Funds		
Properties Held for Resale	71,049	
Loans and Notes Receivable	1,876,056	16,993,197
Total Reserved Fund balance	3,859,096	17,057,582
Unreserved Fund Balance	16,282,114	5,327,707
Total Fund Balance	20,141,210	22,385,289
Total Liabilities and Fund Balance	21,157,475	27,974,622

¹ Includes Housing Rehab loans and loans for several housing and Agency projects.

² Includes RDA properties held for resale.

³ Includes the deferred payment portion of the loans noted above.



CITY COUNCIL STAFF REPORT

MEETING DATE: MAY 28, 2003

TITLE: PERFORMANCE MEASURE UPDATE – MAY 2003

RECOMMENDED ACTION:
Receive and file

EXECUTIVE SUMMARY:

The City implemented Performance Measures into the FY 2002/03 Operating and Capital Budget. Performance measures provide a framework for the strategic planning, City workplan, and goal-setting processes, serve as a tool for communicating organizational performance, and provide a structured approach for linking budget decisions to public priorities.

On a quarterly basis, staff is presenting Performance Measure Updates to the City Council. Attachment A is the update for the third quarter of FY 2002/03.

FISCAL IMPACT:

None.

Agenda Item #2

Prepared By:

Chu Thai

Chu Thai

Approved By:

Finance Director

Submitted By:

City Manager

03/31/03 Update Performance Measure	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
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[010-1100] CITY COUNCIL				Responsibility: City Clerk's Office
Council/Redevelopment Agency Meeting Minutes produced	51	40	66	
Time required to draft, proof and edit minutes		1.5 hrs for every hour of meeting time	1.5 hrs	
Total Hours		128	425	
Percentage of Minutes completed without errors of fact	100%	100%	98%	
Completing Minutes within 2 weeks	100%	100%	100%	

[010-1220] COMMUNITY PROMOTIONS				Responsibility: City Clerk's Office
Proclamations Produced	50	67	150	
Staff time to coordinate/draft requests for proclamations for Council members, staff and outside requests	1.5 hours	1 hour (average)	1.5 hours	
Hours to produce all proclamations	75	67 hours	225 hours	
Percentage of Proclamations completed for a particular meeting date, as requested	100%	100%	100%	

010-2410] COUNCIL SERVICES & RECORDS MANAGEMENT				Responsibility: City Clerk's Office
Number of requests for public records	661	478	707	
Amount of time to research/copy request for public records	77% in one day 20% in 10 days 3% in 10+ days	87% 11% 2%	86.7% 11.7% 1.6%	

[010-2420] ELECTIONS DIVISION				Responsibility: City Clerk's Office
Number of Statement of Economic Interests filed	95	- 0 -	108	
Percentage filed by deadline	93%	N/A	99%	
Percentage filed late	7%	N/A	1%	

[010-1500] CITY ATTORNEY				Responsibility: City Attorney's Office
Standard contracts reviewed within ten days	100%	100%		

03/31/03 Update	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
Performance Measure				
Amended Municipal Chapter Codes adopted by the City	100%	100%		
Hours of MCLE	10	7.75		
Closure of more than 50% of defense cases under \$75,000 in legal fees	100%	100%		

[010-2100] CITY MANAGER				Responsibility: City Manager's Office
Percentage of workplan projects, City-wide, that are completed within the planned time frame	29%	52A	44%	Detail on workplan projects is provided in the third quarter workplan update, scheduled for the May 7, 2003 Council meeting.
Actual General Fund expenditures as a percentage of the adopted General Fund budget	91.80%	46%		
Level of City General Fund reserves as a proportion of adopted General Fund budget	71.10%	61%		

[010-5140] CABLE TELEVISION				Responsibility: City Manager's Office
Number of cable complaints received	18	7	10	
Number of cable complaint processes completed	18	7	9	
Average number of days taken to completely process each cable complaint	Unavailable	2.14	1.7	

[010-5145] COMMUNICATIONS AND MARKETING				Responsibility: City Manager's Office
Pages of City Visions produced	62	32	48	
Dollars (not inclusive of staffing) spent on producing City Visions.	\$53,848	\$27,003.31	\$40,629.18	
Dollars per page of City Visions produced and distributed.	\$869	\$843.85	\$846.44	

[232-5800] SOLID WASTE MANAGEMENT DIVISION				Responsibility: City Manager's Office
Dollars spent communicating recycling information (excluding employee services)	\$59,948	\$40,123.11	\$60,788.48	
Tons of recycling collected	8243	4,339	6,499	
Number of environmental promotions distributed	11	11	12	

03/31/03 Update	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
Performance Measure				
Percentage of customers ranking their solid waste management services "good" or "excellent"	93	N/A	N/A	
Percentage of customers who say they have enough information to properly participate in the City's recycling program	92	N/A	N/A	
Percentage of customers participating in the recycling program	62	72.65	62.76%	
Solid waste diversion rate	53%	N/A	47%	
Dollars spent communicating recycling information / tons of recycling collected	7.27	\$9.25	\$9.35	

[010-2110] RECREATION DIVISION			Responsibility: Recreation and Community Services Division	
Overall cost of staff time to develop Recreation Guide, recruit instructors, negotiate contracts	\$15,015	\$16,159.90 (Summer & Fall '02)	\$18,325 (Spring '03)	
Overall cost produce and advertise recreation classes	\$1,620.17	\$4,556.79	\$4,394	
Number of participants	1466	928	1,304	As of 3/31/03 = 60% of Spring '03 Session completed
Percent of increase/decrease of customer satisfaction from prior year	N/A	N/A	N/A	
Cost per participant to produce Recreation Guide	\$11.35	\$22.32	\$14	Price per participant expected to fall at end of Spring '03 Session on May 31, 2003

[010-2200] HUMAN RESOURCES OFFICE			Responsibility: Human Resources Department	
Cost of providing 24 hours of enhanced training (beyond legal requirements) to each employee per year (est. \$250 per employee)	\$9,711	\$17,492.75	\$26,110.24	
Number of recruitment processes which include selection criteria such as: flexibility, change management, attitude to work, fit for the organization, etc., in addition to the task requirements of the position	13 out of 26 recruitments	9 out of 9	2 of 2	
Number of employees recognized for exemplary customer service, new ways of accomplishing work, successful cost reducing ideas, years of service.	25	72	72	

03/31/03 Update	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
Performance Measure				
Number of HR staff hours spent in training, communicating and consulting to the number of HR staff hours spent recruiting to fill vacant positions.	1 to 4	3 to 4	3.5 to 4	Due to low # of recruitments
Cost to recruit and hire a new employee	\$3,800	\$1,300	\$2,500	

[010-2210] VOLUNTEER SERVICES PROGRAM				Responsibility: Human Resources Department
Number of external requests for municipal volunteer opportunities to number of actual placements	75 to 15 20%	36 to 13 36%	27 to 8 30%	
Number of internal requests for volunteers to number of actual placements.	10 to 9 90%	4 to 3 75%	6 to 5 83%	

[770-8220] WORKERS COMPENSATION INSURANCE				Responsibility: Human Resources Department
Number of workers' compensation claims involving temporary disability benefits	7	3	1	New claims only
Number of lost work days caused by temporary disability	841	468	545	Total time loss all open claims
Average length of time to bring an injured employee off temporary disability	120	93.6	90.8	

[010-2510] FINANCE				Responsibility: Finance Department
Staff hours designated for Accounts Payable	1,800 hours (est.)	1,000	1,500	
Invoices processed	13,885 (est.)	7,118	10,547	
% of invoices paid by due date	91% (est.)	87%	86%	
Average time to process an invoice	7.71 minutes (est.)	8.43 minutes	8.53 minutes	

[650-5750] UTILITY BILLING – SEWER & WATER				Responsibility: Finance Department
Staff hours per year	4,168	2,250	3,375	
Bills processed per year	132,228	66,255	99,580	
Percent sent out error free	99.96%	96.89%	95.88%	
Average time to process a bill	1.89 minutes	2.04 minutes	2.03 minutes	

03/31/03 Update	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
Performance Measure				
[795-8210] GENERAL LIABILITY INSURANCE				Responsibility: Finance Department
Percent of claims responded to within the statutory time frame of 45 days, either through a rejection of the claim or through a proposed resolution.	78%	100%	100%	

[010-3205] POLICE ADMINISTRATION				Responsibility: Police Department
Hours spent processing citizens' complaints regarding police services.	N/A	54 hours	75.85 hours (26 complaints)	
Percentage of formal citizens' complaints resolved within 30 days of receipt.	N/A	38%	38%	
Percent of sworn personnel who receive 24 hours of Continued Proficiency Training	61%	30%	33%	
Deficiencies reported in the annual POST audit	03/22/0 13 sworn	No Deficiencies	0	

[010-3210] POLICE PATROL OPERATIONS				Responsibility: Police Department
Number of hours of directed patrol targeting vehicle burglaries.	N/A	552	828	
Number of self initiated contacts compared to calls for service.	SI/CFS 16,637/33,536	SI/CFS Jul thru Dec 2002 7,890/17,385	SI/CFS Jul 02 thru Mar 03 12,034/21,396	
Vehicle burglary incident reports.	229	July thru Dec 2002 - 117	167	
Percent of clearance in Part I and Part II crime rates for Morgan Hill as compared to regional cities the national rate.	Annual Average MH 18%/Natl 21%	July thru Dec 2002 MH 18% National 21%	Jul 02 thru Mar 03 MH 16% National 21%	
Percent of Priority I calls responded to within 5 minutes of receipt.	Annual Average 100%	July thru Dec 2002 100%	100%	
Number of fatal or injury collisions to the hazardous citations issued.	N/A	0/444	0 fatal / 20 injuries / 757cites	

[010-3225] POLICE SUPPORT SERVICES				Responsibility: Police Department
Hours dedicated to the property/evidence function.	35 hours/week	35 Hours/week	35 Hours/week	
Percent of property/evidence released or purged within 30 days of clearance.	Annual Average 80%	July thru Dec 2002 100%	100%	

03/31/03 Update	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
Performance Measure				
Percent of arrests entered into CJIC within 48 business hours of arrest date.	Annual Average 95%	July thru Dec 2002 100%	100%	
Incident reports stored electronically.	100%	July thru Dec 2002 2,701	3,922	

[010-3230] EMERGENCY SERVICES UNIT				Responsibility: Police Department
Hours of preparedness presentations given to the community.	N/A	174 hours	176 hours	
Number of organized CERT teams capable of operating within the City.	N/A	5 teams of 15-25 members	5 teams of 15-25 members	
Emergency drills/exercises completed.	N/A	3	3	
Percent of the disaster plan updated annually.	N/A	2 new additions	2 new additions	

[010-3245] POLICE SPECIAL OPERATIONS				Responsibility: Police Department
Investigations assigned to Special Operations.	N/A	July thru Dec 2002 - 125	170	
Incidents investigated by division personnel submitted to the District Attorney's Office requesting the issuance of a criminal complaint.	N/A	July thru Dec 2002 - 47	68	

[010-5450] ANIMAL CONTROL SERVICES UNIT				Responsibility: Police Department
Hours spent to enforce animal license provisions of State law and local ordinance.	8 hours/day	8 Hours/day	8 Hours/day	
Animal licenses issued to Morgan Hill residents	2,978	July thru Dec 2002 - 420	678	
Impounded animals in Morgan Hill returned to their owners within 4 days of impound	N/A	July thru Dec 2002 - 17	19	
Number of unlicensed dogs impounded or owners cited to the number of licensed dogs	24/2,978	July thru Dec 2002 - 39/420	93/673	

[010-8270] POLICE DISPATCH SERVICES				Responsibility: Police Department
911 calls received	8,400	July thru Dec 2002 - 3,509	4,955	
Average time to answer 98% of 911 phone calls	11 seconds	11 seconds	11 seconds	
Average time between when a Priority I call is answered and a unit is dispatched.	N/A	2:47	1:47	

03/31/03 Update	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
Performance Measure				
Percent of data entry of incident reports completed within 7 days of report conclusion.	98%	100%	100%	

[206-5120] PLANNING			Responsibility: Community Development Department	
Number and percent of SR Applications processed within 90 days (excluding CEQA projects requiring initial study or EIR)	16 applications; 3 incomplete 92%	17 applications: 6 incomplete, 9 completed within 90 days of application, 2 still within 90 days of application = 100%		
Number of applications filed which require Architecture Review Board, Planning Commission or City Council approval	144	127		
Percent of RDCS Projects provided 30-day notice of default or expiration of allotment	70%	96.5%		
Number of applications (which require ARB, PC or CC approval) processed per planner	Senior – 49 Assoc – 59 Asst – 18 Staff – 18	Senior – 111 Assoc – 26 Asst – 21 Staff – 39		
Percent of DRC comments received on time	80%	55%		

[206-5130] BUILDING DIVISION			Responsibility: Community Development Department	
Percentage of inspections accomplished within a 24 hour response timeline	88%	97%	98%	
Total number of complaints and cases processed	404	206	263	
Number of Code Enforcement cases investigated or mitigated	375	179	354	
Percent of Code Enforcement cases completed and closed	93%	56%	70%	

[010-5440] PUBLIC WORKS PARK MAINTENANCE			Responsibility: Public Works Department	
Customer Work Order Response Time Non-Emergency Emergency	N/A N/A	4 Days 0	4 Days 0	
Maintenance Cost per Acre	\$11,611/acre/year	Result recorded annually	Result recorded annually	

03/31/03 Update Performance Measure	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
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[202-6100] PUBLIC WORKS STREET MAINTENANCE	Responsibility: Public Works Department
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Customer Work Order Response Time Non-Emergency Emergency	N/A N/A	4 Days 24 Minutes	4 Days 1.5 Hours	
Miles of Roadside Weed Abatement	12 Curb Miles	3 Curb Miles		
Tons of Debris Removed by Street Sweeping	290 Tons	182 Tons		

[206-5410] PUBLIC WORKS ENGINEERING	Responsibility: Public Works Department
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Number of Final Maps Recorded	12	8		
Number of Plan Checks returned on time	68/79	76/88		
Number of Planning/Building Division referrals received	76	65		
Hours spent inspecting public improvements constructed by private developers	2,790 hours	1,160 hours		

[229-8351] PUBLIC WORKS LIGHTING & LANDSCAPE	Responsibility: Public Works Department
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Manage all sub-areas to reduce deficits in fund balances	48%	Result recorded annually	Result recorded annually	
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[640-5900] PUBLIC WORKS SEWER OPERATIONS	Responsibility: Public Works Department
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Customer Work Order Response Time Non-Emergency Emergency	N/A N/A	14 Hours 12 Minutes	1 Day 12 Minutes	
Sewer Main Restrictions Cleared	20	13	16	

[650-5710] PUBLIC WORKS WATER OPERATIONS	Responsibility: Public Works Department
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Customer Work Order Response Time Non-Emergency Emergency	N/A N/A	1 Day 18 Minutes	17 Hours 24 Minutes	
---	------------	---------------------	------------------------	--

03/31/03 Update Performance Measure	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
[650-5720] PUBLIC WORKS METER READING				Responsibility: Public Works Department
Customer Work Order Response Time Non-Emergency Emergency	N/A N/A	17 Hours 11 Minutes	18 Hours 14 Minutes	
Fire Hydrant Maintenance Performed	65	80	287	
Water Meter Tested - 2" or Greater	64	0	0	
Annual Cost to Read a Meter	\$0.71	\$0.65	\$0.65	

[650-5760] WATER CONSERVATION				Responsibility: Public Works Department
Cooperative efforts with Santa Clara Valley Water District to reduce water consumption	1	3		

[745-8280] PUBLIC WORKS CIP ADMINISTRATION				Responsibility: Public Works Department
Number of Engineering Division hours worked on all CIP Projects	8,000 hours ¹	5,270 hours		
Number of CIP projects awarded	10	8		
Percentage of CIP projects completed within Council approved contingency	100%	100%		
Hours spent inspecting public improvements constructed as CIP projects	1,490 hours	2,402 hours		

[317-7000] BUSINESS ASSISTANCE – ADMINISTRATION				Responsibility: Business Assistance and Housing Services Department
Amount of value of building permits pulled for commercial tenant improvements	\$24mil	\$5.8 M	\$6.3 M	
Number of business provided Ombudsman services, sent information or met with by a BAHS representative	N/A	1,170	1,785	
Amount of square footage in building permits pulled for new commercial/industrial office space	100,000	108,000	111,516	
Amount of sales tax generated from new businesses	N/A	\$52,000	\$81,000	
Number of new businesses generating sales tax revenue	N/A	100	168	

03/31/03 Update Performance Measure	Actual Result for 2001-02	Status of measure as of 12/31/02	Status of measure as of 03/31/03 (Cumulative)	Explanatory Comments (as needed)
[327-7100] HOUSING Responsibility: Business Assistance and Housing Services Department				
Number of BMR refinance, Rental and Ownership application	214	214	284	
Number of refinancing request and BMR applications approved	135	191	242	
Number of BMR Rental occupied and BMR units sold	26	20	22	
Number of BMR applications received and approved per F.T.E. staffing for the program	134/FTE	156/FTE	202/FTE	



CITY COUNCIL STAFF REPORT

MEETING DATE: May 28, 2003

RESPONSE TO SANTA CLARA COUNTY CIVIL GRAND JURY INQUIRY INTO HIRING PRACTICES FOR YOUTH SPORTS COACHES

RECOMMENDED ACTIONS:

1. **Approve** Response to Grand Jury Report.

EXECUTIVE SUMMARY:

On April 8, 2003, the Grand Jury of Santa Clara County issued a Final Report, **Inquiry Into Hiring Practices for Youth Sports Coaches**. The recommendation in the report was for all employees and volunteers of Parks and Recreation Departments be required to have record checks run through both the California Department of Justice and the FBI databases.

Per City Council Resolution 5051, all City of Morgan Hill employees and volunteers are fingerprinted and checked through the California Department of Justice since December 4, 1996. The Department of Human Resources staff made numerous inquiries with the Department of Justice and the Office of the Attorney General to establish the practice of adding the FBI record check for Parks and Recreation employees and volunteers to that already done by the Department of Justice. We received conflicting answers as to whether or not we would be able to add the FBI check, but the final response was that we could not do the FBI check because only those positions identified under law are subject to the FBI record check (public safety employees and teachers). Employees and volunteers of Parks and Recreation Departments are presently considered general municipal employees, and, as such, are not subject to the FBI check. To do so will require a change in the law. Staff will comply with the recommendation of the Santa Clara County Civil Grand Jury as soon as such compliance is possible.

CONSISTENCY WITH CITY COUNCIL GOALS: Complying with and continuing to remain current with the laws surrounding the accessibility of FBI records is consistent with the Council's goal to improve Day-to-Day Operations. It also addresses the goal of enhancing public safety.

FISCAL IMPACT: At such time as the FBI record check is allowed to be completed on Parks and Recreation employees and volunteers, the cost per applicant will be \$24.00 in addition to the current \$32.00 for the Department of Justice charge.

Agenda Item # 3

Prepared By:

**Human Resources
Director**

Submitted By:

City Manager

CITY OF MORGAN HILL
SPECIAL CITY COUNCIL MEETING
MINUTES – MAY 15, 2003

CALL TO ORDER

Mayor Kennedy called the special meeting to order at 1:00 p.m.

ROLL CALL ATTENDANCE

Present: Council Members Chang and Sellers, and Mayor Kennedy.
Absent: Council Members Carr and Tate

DECLARATION OF POSTING OF AGENDA

City Council Action

1. DISCUSSION OF PERCHLORATE REGULATION IN DRINKING WATER

The City Council met with State Assembly Member John Laird and discussed perchlorate and possible regulations associated with drinking water.

Action: **No Action Taken.**

ADJOURNMENT

There being no further business, Mayor Kennedy adjourned the meeting at 2:05 p.m.

MINUTES PREPARED BY:

IRMA TORREZ, CITY CLERK



CITY COUNCIL & REDEVELOPMENT

AGENCY STAFF REPORT

MEETING DATE: May 28, 2003

Agenda Item #
5

Prepared By:

Finance Director

Submitted By:

City Manager

INVESTMENT POLICY UPDATE

RECOMMENDED ACTIONS:

- 1) Review and adopt the updated Investment Policy for the City.
- 2) Review and adopt the updated Investment Policy for the Redevelopment Agency

EXECUTIVE SUMMARY: Section 53646(a)(2) of the Government Code requires that "...the treasurer or chief fiscal officer shall annually render to the legislative body of that local agency and any oversight committee... a statement of investment policy, which the legislative body of the local agency shall consider at a public meeting. Any change in the policy shall also be considered by the legislative body of the local agency at a public meeting..." In compliance with this requirement, staff is bringing the attached proposed separate investment policies for the City (Exhibit A) and Redevelopment Agency (Exhibit B) for your review. These policies were last updated and adopted by the City Council and Redevelopment Agency Board of Directors in June of 2002.

The Finance and Audit Committee, which includes the City Treasurer, has reviewed the current policy and has endorsed several changes designed to safely maximize investment earnings and to promote local investing. To understand how investing in local financial institutions benefits the community, the Committee invited and talked with representatives from two local banks. In these meetings, the Committee determined that investing locally allows the City and Agency to provide an economic boost to the community, since local financial institutions would have more money to lend to local borrowers, which would assist both the business community and the residents of Morgan Hill. Under the current Investment Policy, on Page 10, "Time deposits will only be made with qualified banks and savings and loans having branch office locations within Santa Clara County..." These investments must be fully collateralized.

The Committee recommends that a fourth goal be added to the Investment Policy that would "...invest public funds to...Encourage local economic benefits to City of Morgan Hill residents and businesses by investing in local financial institutions, subject to local control." The Committee also recommends that the \$1 million maximum investment limit and the one year maximum term for time deposits specified under the current Investment Policy be increased to \$2 million and 2 years. While most of the City's idle funds would continue to be invested in federal agency securities and with the State of California Local Agency Investment Fund (LAIF), these changes would help the community by allowing for a greater opportunity to prudently invest in local financial institutions and would allow the City to simultaneously achieve a good return on investments. The proposed changes are described more fully on Attachment A and are incorporated in the attached proposed Investment Policy.

Since State law also requires that this Investment Policy be submitted to the California Debt and Investment Advisory Committee, staff will submit the new policy to the State following adoption.

FISCAL IMPACT: The attached proposed Investment Policy continues to provide that the first priority in investing City and Redevelopment Agency funds is the safety of those funds, the second priority is the liquidity of those funds, and the third priority is the yield on those investments. Safety is paramount and is reflected in the types of investments allowed under the policy.

ATTACHMENT A

PROPOSED CHANGES TO CITY AND RDA INVESTMENT POLICIES

Investment Policy P. 3: “**INTRODUCTION**” first paragraph currently reads:
“...The primary goals of this policy are to invest public funds to:

- 1 Meet the daily cash flow needs of the City.
- 2 Comply with all laws of the State of California regarding the investment of public funds.
- 3 Achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.”

In order to expand the goals of the Investment Policy to include the consideration of local economic benefits to the community, it would be appropriate to add the following additional goal:

“4 Encourage local economic benefits to City of Morgan Hill residents and businesses by investing in local financial institutions, subject to legal control.”

Investment Policy P. 7: “**AUTHORIZED INVESTMENTS**” paragraph D. currently reads:

“The City may place funds in inactive deposits with Banks and Savings and Loans with a branch within California that have a rating of at least "A-1" from the Financial Directory or an equivalent rating from another generally recognized authority on ratings, and have an Equity to Total Assets ratio of at least 4%. No more than 10% of the City portfolio, exclusive of investments in Government agency issues and the State Treasurer's Local Agency Investment Fund, shall be placed with any one financial institution. All deposits shall be secured in accordance with Sections 53651 and 53652 of the California Government Code and comply with Schedule I (Policy Statement of Collateralized Time Deposits) attached. If deposits are not collateralized, the maximum placed at any one institution will be \$100,000. The maximum amount of collateralized inactive deposits placed at any one institution shall not constitute more than 5% of the total assets of the institution or \$5,000,000, whichever is less, and shall not exceed the total shareholders' equity of the issuing institution.”

The second sentence in the above paragraph would be deleted since, in limiting a City investment to no more than 10% of the portfolio not invested in the only other allowed investments of federal agencies or LAIF, this provision mandates that the City would have to invest in at least 10 certificates of deposit if it invests in at least one. This is not practical given the City’s limited investment resources and staffing. In addition, in order to be consistent with other parts of the existing policy and to change the maximum proposed investment in a certificate of deposit, the last sentence would be changed so that 5% is replaced with **10%** and \$5 million would be changed to **\$2 million**.

Investment Policy P. 9: “Policy Statement on Collateralized Time Deposits” paragraph 6 currently reads:

“The City will not place a fund deposit for more than \$1,000,000, or 10% of the assets of the institution, whichever is less.” Since the proposed investment is \$2 million, “\$1,000,000 would be replaced with **\$2,000,000.**”

Investment Policy P. 9: “Policy Statement on Collateralized Time Deposits” paragraph 8 reads:

“All time certificates must have a maturity period not exceeding one year from the date of deposit with quarterly payments of interest based upon the stated interest rate.” Since the proposed investment term is 2 years, “one year” would be replaced with “**two years.**”

Investment Policy P. 17: table entitled: “Authorized Investments Ranked by Authority and Degree of Risk” includes, under time deposits, “Max \$1 million per Institution...” Since the proposed investment is \$2 million, “\$1 million would be replaced with **\$2 million.**”

Invpoldraft1b

EXHIBIT A

CITY OF MORGAN HILL

STATEMENT OF INVESTMENT POLICY

MAY 28, 2003

CITY OF MORGAN HILL
Statement of Investment Policy

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CITY OF MORGAN HILL
Statement of Investment Policy

INTRODUCTION

The investment policy and practices of the City of Morgan Hill are based upon state law, city ordinances, prudent money management and the "prudent person" standards. The primary goals of this policy are to invest public funds to:

1. *Meet the daily cash flow needs of the City.*
2. *Comply with all laws of the State of California regarding the investment of public funds.*
3. *Achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.*
4. *Encourage local economic benefits to the City of Morgan Hill residents and businesses by investing in local financial institutions, subject to legal control.*

SCOPE

The investment policy applies to all funds under the control of the City Council of the City of Morgan Hill, including but not limited to the general revenues of the City, enterprise fund revenues and proceeds of bond sales, debt service revenues and trust funds in the custody of the City. These funds are accounted for in the comprehensive annual financial reports of the City of Morgan Hill.

INVESTMENT OBJECTIVES

A. Safety of Principal

Safety of principal is the City's foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure that capital losses resulting from institution default, broker-dealer default, or the erosion of market value are avoided. The City shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only the highest quality securities (see authorized investments) and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City cash flow.

2. Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, this eliminating the need to sell securities prior to maturity; and by prohibiting the taking of short positions, that is, selling securities that the City does not own. It is explicitly recognized, however, that in a diversified portfolio, occasional measured losses may occur, and must be considered within the context of the overall investment return.

B. Liquidity

Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements. At all times, at least 50% of the total portfolio shall be invested for periods of three years or less; at least 30% of the total portfolio shall be invested for two years or less; at least 20% of the total portfolio shall be invested for one year or less. At no time will a security in the portfolio mature in more than five years except bond reserve funds, bond escrow funds and any funds approved by the City Council to be appropriate for a longer period.

C. Yield

The City portfolio shall be invested to attain a market average rate of return through economic cycles, as long as it does not diminish the objectives of Safety and Liquidity. The market rate of return is defined as the average return on the one-year U.S. Treasury Bill. Whenever possible and in a manner consistent with the objectives of safety of principal and liquidity, a yield higher than the market rate of return shall be sought.

AUTHORITY TO INVEST FUNDS

The City Council has appointed the City Treasurer responsible for undertaking investment transactions on behalf of the City. Unless specifically designated by the City Council, the only officials authorized to undertake investment transactions on behalf of the City are the City Treasurer, Deputy City Treasurer and City Manager. The City Manager shall review all investment purchases before they occur. The City Treasurer and City Manager will observe, review and react to the changing conditions that affect the investment portfolio. They will meet on a regular basis to discuss current market conditions, future trends and how each of these affects the investment portfolio and the City. The City Treasurer and City Manager shall establish a system of controls to ensure compliance with the City's investment policy.

INTERNAL CONTROL

The City Treasurer is responsible for ensuring compliance with the City investment policies as well as establishing investment related internal controls designed to prevent losses due to fraud, employee error, misrepresenting by third parties, or unanticipated changes in financial markets.

ETHICS AND CONFLICTS OF INTEREST

Officer and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any larger personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence in the City's ability to govern effectively.

EVALUATION OF INVESTMENTS

The actions of City investment officers in the performance of their duties as managers of public funds shall be evaluated using the following "prudent person" standard applied in the context of managing the overall portfolio:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

City investment officers acting in accordance with written policies and the "prudent person" standard and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that substantial deviations from expectations are reported by the Treasurer to the City Manager within three days of discovery. Mutually agreeable remedial action will be taken by the Treasurer and City Manager and reported to the City Council at their next regularly scheduled meeting.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The City shall transact business only with banks and savings and loans, and investment securities dealers which/who comply with Schedule III (Policy Criteria for Selecting Broker/Dealers) attached. The City Treasurer will maintain a list of financial institutions authorized to provide investment services. He will also maintain a list of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment services to the City. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank. Exceptions to the primary dealer rule may be made with the approval of the City Council, provided they are consistent with California Government Code Section 53601.5.

All primary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, and U4 Form for the broker,

completed broker/dealer questionnaire (see Schedule III) and certification of having read the City's investment policy. All secondary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, proof of National Association of Securities Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire (see Schedule 111), U4 Form for the broker and certification of having read the City's investment policy. The City Treasurer shall determine if they are adequately capitalized, make markets on securities appropriate to the City's needs and are recommended by managers of portfolios similar to the City. The City Treasurer shall submit his findings and recommendations to the City Council. As part of their annual review of the Investment Policy, the Council will determine which broker/dealers will be authorized to trade with the City.

An annual review of the financial condition and registration of qualified bidders will be conducted. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the City invests.

The City shall at least annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the City. Confirmation of receipt of this policy shall be considered evidence that the dealer has read and understands the City's investment policy and will recommend and execute only transactions suitable for and in compliance with the City's investment policy.

AUTHORIZED INVESTMENTS

The City is authorized by California Government Code Section 53600, et. seq. to invest in specific types of securities. The City has further limited the types of securities in which we may invest. Any security not listed, is not a valid investment for the City. The concise list of approved securities is as follows:

- A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio which can be invested in this category.
- B. Obligations issued by United States Government Agencies such as, but not limited to, the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Mortgage Corporation (FHLMC), the Student Loan Marketing Association (SLMA), and the Tennessee Valley Authority (TVA). Although there is no percentage limitation of the dollar amount that can be invested in these issuers, the "prudent person" rule shall apply for any single agency name.
- C. The Local Agency Investment Fund (LAIF), established by the State Treasurer for the benefit of local agencies and identified under Government Code Section 16429.1 is authorized up to the maximum amount permitted by State Law.

- D. The City may place funds in inactive deposits with Banks and Savings and Loans with a branch within California that have a rating of at least "A-1" from the Financial Directory or an equivalent rating from another generally recognized authority on ratings, and have an Equity to Total Assets ratio of at least 4%. All deposits shall be secured in accordance with Sections 53651 and 53652 of the California Government Code and comply with Schedule I (Policy Statement of Collateralized Time Deposits) attached. If deposits are not collateralized, the maximum placed at any one institution will be \$100,000. The maximum amount of collateralized inactive deposits placed at any one institution shall not constitute more than 10% of the total assets of the institution or \$2,000,000, whichever is less, and shall not exceed the total shareholders' equity of the issuing institution.
- E. The City may invest in the Dreyfuss Treasury Cash Management Fund as an overnight sweep account in conjunction with contracting with South Valley National Bank for banking services.

INVESTMENT POOLS

The Local Agency Investment Fund (LAIF) is authorized under provisions in Section 16429.1 of the California Government Code. The City's participation in the pool was previously approved by the City Council. The City will investigate all local government investment pools (LGP) prior to investing and periodically thereafter while the City is invested in the pool.

SAFEKEEPING OF SECURITIES

To protect against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to City funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the City Treasurer.

DIVERSIFICATION

The City will diversify its investments by security type and investment. With the exception of bond reserve funds, bond escrow funds, and any other funds approved by the City Council, at all times at least 50% of the total portfolio shall mature in three years or less; at least 30% of the total portfolio shall mature in two years or less; at least 20% of the portfolio shall mature in one year or less.

MAXIMUM MATURITIES

The City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, as approved by the City Council, the City will not directly invest in securities maturing more than five years from the date of purchase. Bond reserve funds, bond escrow funds, and any other funds approved by the City Council may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as possible with the expected use of the funds.

BOND PROCEEDS

The City will direct the investment of proceeds on bonds issued as instructed in the bond indenture. Securities authorized by the bond indenture that are not authorized by the City's investment policy will only be used if they are specifically approved by the City Council. Unless otherwise approved by the City Council, all securities will be held in third-party safekeeping with the bond trustee, and all delivery-versus-payment rules will apply. Fees will be collected annually to compensate for administration costs.

REPORTING REQUIREMENTS

The City Treasurer shall render a report of investment activity to the City Council within 30 days following the end of the quarter. The report will include the type of investment, issuer, date of maturity, and par and dollar amount invested, on all securities, investments and monies held by the City. The report shall state market value and the source of the valuation, and state that the portfolio is in compliance with the policy or the manner in which it is not in compliance. The report will also include a statement denoting the ability to meet the City's expected expenditure requirements for the next six months or provide an explanation as to why sufficient money is not available. The report date will be the actual month-end date unless the last day of the month falls on a weekend or legal holiday. If the last day of the month is a weekend or legal holiday, the date of month-end report will be the last business day prior to the end of the month.

INVESTMENT POLICY ADOPTION

The City Treasurer shall submit an annual Statement of Investment Policy to the City Council for their approval. This statement shall be presented before June 30 of each year.

INVESTMENT POLICY REVIEW

The City's independent Certified Public Accountant shall annually review and make recommendations regarding the City investment policies to the extent considered necessary as required by generally accepted auditing standards as they relate to the annual financial audit which includes cash and investments.

CITY OF MORGAN HILL

POLICY STATEMENT ON COLLATERALIZED TIME DEPOSITS
SCHEDULE I

Before the Treasury can place a time deposit with a local bank or savings and loan, the following, criteria must be met:

1. The bank must provide us with an executed copy of the "Contract for Deposit for Moneys" as specified in Section 53649 of the California Government Code.
2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans and must exceed the interest rate for treasury bills for a similar maturity period.
3. For investments less than \$ 100,000, FDIC insurance will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.
4. For investments exceeding \$100,000, there may be a waiver of collateral for the first \$100,000 deposited, and all of the funds placed on deposit must be collateralized by 105% of U.S. Treasury or Federal Agency securities, or by 150% of mortgages having maturities less than five years in accordance with Section 53652 of the California Government Code. The City must receive confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged must be maintained at a current market value 10% greater than the dollar amount of the deposit.
5. The City must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a "statement of financial condition" as well as an "income statement" depicting current and prior year operations.
6. The City will not place a fund deposit for more than \$2,000,000, or 10% of the assets of the institution, whichever is less.
7. The City must receive a certificate of deposit which specifically expresses the terms governing the transaction, (i.e., the period of time, name of depositor, interest rate, etc.).
8. All time certificates must have a maturity period not exceeding two years from the date of deposit with quarterly payments of interest based upon the stated interest rate.
9. The City must also receive a letter from the comptroller and/or treasurer of the bank at the time the deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists with any City official, officer or employee at the time the bank is receiving this deposit. The City has a fiduciary responsibility to make prudent investment of public funds, and to assure our investment practices are absent of any financial inducement or conflict in interest whatsoever.

10. Time deposits will only be made with qualified banks and savings and loans having branch office locations within Santa Clara County. However, time deposits with a bank or savings and loan must be centralized at one designated office location rather than making separate deposits with each branch office.

CITY OF MORGAN HILL

POLICY CRITERIA FOR SELECTING BROKER/DEALERS
SCHEDULE II

1. All primary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, and U4 Form for the broker, completed broker/dealer questionnaire (made a part of this Schedule) and certification of having read the City's investment policy. All secondary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, proof of National Association of Securities Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire (made a part of this Schedule), U4 Form for the broker and certification of having read the City's investment policy.
2. The net capital position of the firm shall be in excess of \$ 100 million.
3. The City Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
4. The firm must state in writing its willingness to be bound by the City's written Investment Policy Guidelines.
5. The firm must provide an active secondary market for the securities it sells.
6. The firm must specify the types of securities it specializes in and will be made available for our account.
7. It is important that the firm provide related services that will enhance the account relationship which could include:
 - a) An active secondary market for its securities.
 - b) Internal credit research analysis on commercial paper, banker's acceptances and other securities it offers for sale.
 - c) Be willing to trade securities on our portfolio.
 - d) Be capable of providing market analysis, economic projections, newsletters.
 - e) Provide market education on new investment products, security spread relationships, graphs, etc.
8. The firm must be willing to provide us annual financial statements.
9. If requested, the firm must be willing to provide us a list of local government clients or other references, particularly those client relationships established within the State of California.

10. The City is prohibited from the establishment of a broker/dealer account for the purpose of holding the City's securities. All securities must be subject to delivery at the City's custodial bank.
11. Without exception, all transactions are to be conducted on a "delivery vs. payment" basis.
12. The broker/dealer shall be headquartered or have a branch office in California- Except for the above, the City will not conduct security transactions with any firm located out of state.
13. The broker/dealer must have been in operation for more than 5 years, and must have net capital in excess of \$100 million.
14. No business relationship shall be established with firms engaged in the sale of "exotic" products. Exotic means "unusually high yields," no ready secondary market, "high price volatility" on the security.
15. The firm must be registered with the State of California's regulatory agency.
16. No broker/dealer or security firm shall be selected who has made a political contribution to the local treasurer or any member of the City Council or the Redevelopment Agency governing board or to any candidate for these offices.

Broker/Dealer Questionnaire

Name of Firm:

Address:

Telephone No.:

Primary representative

Manager

Name:

Title:

Telephone No:

1. Are you a recognized primary dealer in Government securities?
() Yes () No
2. If so, how long has your firm been a primary dealer?
_____ years.
3. Are you a retail or institutional brokers?
4. What was your firm's total volume in U. S. Government and agency securities trading last year?
Firm-wide \$ _____
Your office \$ _____
5. Which instruments are offered regularly by your trading desk?
() T-bills () BA's (domestic)
() T-notes and bonds () BA's (foreign)
() Agencies (specify) () Commercial Paper
FFCB, FHLB, FNMA () Bank C. D.'s

FHLMC, SLMA, TVA

() S & L C. D.'s

WORLD BANK

() Repurchase Agreements

() Medium Term Corporate Notes

() Reverse Repurchase
Agreements

() Mutual Funds (eligible for public investment)

6. Identify all personnel who will be trading with or quoting securities to the City.

Name

Title

Phone

7. Please identify your most directly comparable City/Local Agency clients in our geographical area.

Entity

Contact Person

Phone

Client
Since

8. Is there anything in your background in the government securities business that makes you stand out above the rest? Why should the City of Morgan Hill deal with you?

9. Have any of your public sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of a particular instrument? If so, please explain.

10. Has any public sector client ever claimed in writing that your firm was responsible for investment losses? Explain.

11. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by Federal Reserve standards.

12. Please provide certified financial statements and other statements regarding your firm's capitalization.

13. Please include samples of research reports that your firm regularly supplies to public

sector clients.

14. Are you a Broker instead of a Dealer (i.e. you DO NOT own positions of securities)?
15. What reports, transactions, confirmations and paper trail would the City receive?
16. What training information would you provide to our employees and investment officers?
17. How many and what percentage of your transactions failed last month? Last year?
18. What portfolio information do you require from clients?

--CERTIFICATION--

I hereby certify that I have personally read the City of Morgan Hill's Investment Policy and the California Government Codes pertaining to the investments of the City of Morgan Hill, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted by our firm on behalf of the City of Morgan Hill, considering the City's investment objectives, strategies and risk constraints. We pledge to exercise due diligence in informing the City Treasury staff of all foreseeable risks associated with financial transactions conducted with our firm. I attest to the accuracy of our responses to the above questionnaire.

NOTE: Completion of this questionnaire is only part of the City of Morgan Hill's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the City.

SIGNED
(Account Representative)

SIGNED
(Countersigned by Company President or person in charge of government securities operations.)

DATED

CITY OF MORGAN HILL

FIRMS AUTHORIZED TO CONDUCT INVESTMENT TRANSACTIONS
SCHEDULE III

The City is authorized to conduct investment security transactions with the following investment firms and broker/dealers, many of which are designated by the Federal Reserve Bank as primary government dealers. Security transactions with firms, other than those appearing on this list, are prohibited.

A. Firms designated by the Federal Reserve Bank as Primary Government Dealers:

None

B. Other authorized firms:

Union Bank of California
Fahnestock & Co., Inc.

CITY OF MORGAN HILL
Authorized Investments Ranked by Authority and Degree of Risk
April 16, 2003

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS
U.S. TREASURY BILLS & NOTES	No Limit	No Limit
DREYFUSS TREASURY CASH MANAGEMENT FUND	No Limit	No Limit
U.S. GOVERNMENT AGENCIES	No Limit	No Limit
LOCAL AGENCY INVESTMENT FUND	No Limit	Max. Set by Gov't Code- currently \$40 m per acct.
TIME DEPOSITS	Max 5% of portfolio (excluding gov't agency and LAIF)	Max \$2 million per institution Collateral = 105% to 150%
REPURCHASE AGREEMENTS	Not Authorized	Not Authorized
MONEY MARKET MUTUAL FUNDS	Not Authorized	Not Authorized
BANKERS' ACCEPTANCES	Not Authorized	Not Authorized
COMMERCIAL PAPER	Not Authorized	Not Authorized
MEDIUM-TERM CORPORATE NOTES	Not Authorized	Not Authorized
NEGOTIABLE CD'S	Not Authorized	Not Authorized
REVERSE REPURCHASE AGREEMENTS	Not Authorized	Not Authorized
ASSET BACKED SECURITIES	Not Authorized	Not Authorized
STATE & LOCAL INDEBTEDNESS	Not Authorized	Not Authorized

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINT: One one-hundredth of a percent (i.e., 0.01%).

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

BROKER: A broker brings buyers and sellers together for a commission. He does not take a position.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There

are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. S&L's, Small business firms, students, farmers, farm cooperatives, and exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A Federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE

ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C.; 12 regional banks and about 5,700 commercial banks are member of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash

without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKET REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See "Asked" and "Bid".

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit. Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of

government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state--the so-called "legal list". In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

REPURCHASE AGREEMENT (RP or REPO): a holder of securities sells these securities to an investor with an agreement to purchase them at a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See "Uniform Net Capital Rule".

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three month, six months or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing U.S. Treasury securities having initial maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, on reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD or YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

EXHIBIT B

MORGAN HILL REDEVELOPMENT AGENCY

STATEMENT OF INVESTMENT POLICY

MAY 28, 2003

MORGAN HILL REDEVELOPMENT AGENCY
Statement of Investment Policy

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MORGAN HILL REDEVELOPMENT AGENCY

Statement of Investment Policy

INTRODUCTION

The investment policy and practices of the Morgan Hill Redevelopment Agency are based upon state law, city ordinances, prudent money management and the "prudent person" standards. The primary goals of this policy are to invest public funds to:

1. *Meet the daily cash flow needs of the Redevelopment Agency.*
2. *Comply with all laws of the State of California regarding the investment of public funds.*
3. *Achieve a reasonable rate of return while minimizing the potential for capital losses arising from market changes or issuer default.*
4. *Encourage local economic benefits to the City of Morgan Hill residents and businesses by investing in local financial institutions, subject to legal control.*

SCOPE

The investment policy applies to all funds under the control of the Morgan Hill Redevelopment Agency, including but not limited to the general revenues of the Agency and proceeds of bond sales. These funds are accounted for in the comprehensive annual financial reports of the Morgan Hill Redevelopment Agency.

INVESTMENT OBJECTIVES

A. Safety of Principal

Safety of principal is the Agency's foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure that capital losses resulting from institution default, broker-dealer default, or the erosion of market value are avoided. The Agency shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.

1. Credit risk, defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investing in only the highest quality securities (see authorized investments) and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the Agency's cash flow.

2. Market risk, defined as the risk of market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio so that securities mature at the same time that major cash outflows occur, this eliminating the need to sell securities prior to maturity; and by prohibiting the taking of short positions, that is, selling securities that the Agency does not own. It is explicitly recognized, however, that in a diversified portfolio, occasional measured losses may occur, and must be considered within the context of the overall investment return.

B. Liquidity

Liquidity is the second most important objective of the investment program. The investment portfolio shall remain sufficiently liquid to enable the Agency to meet all operating requirements. At all times, at least 50% of the total portfolio shall be invested for periods of three years or less; at least 30% of the total portfolio shall be invested for two years or less; at least 20% of the total portfolio shall be invested for one year or less. At no time will a security in the portfolio mature in more than five years except bond reserve funds, bond escrow funds and any funds approved by the Agency Board to be appropriate for a longer period.

C. Yield

The Agency portfolio shall be invested to attain a market average rate of return through economic cycles, as long as it does not diminish the objectives of Safety and Liquidity. The market rate of return is defined as the average return on the one-year U.S. Treasury Bill. Whenever possible and in a manner consistent with the objectives of safety of principal and liquidity, a yield higher than the market rate of return shall be sought.

AUTHORITY TO INVEST FUNDS

The Redevelopment Agency Board have appointed the Director of Finance responsible for undertaking investment transactions on behalf of the Agency. Unless specifically designated by the Agency Board, the only officials authorized to undertake investment transactions on behalf of the Agency are the Director of Finance, Deputy Treasurer and City Manager. The City Manager shall review all investment purchases before they occur. The Director of Finance and City Manager will observe, review and react to the changing conditions that affect the investment portfolio. They will meet on a regular basis to discuss current market conditions, future trends and how each of these affects the investment portfolio and the Agency. The Director of Finance and City Manager shall establish a system of controls to ensure compliance with the Agency's investment policy.

INTERNAL CONTROL

The Director of Finance is responsible for ensuring compliance with the Agency investment policies as well as establishing investment related internal controls designed to prevent losses due to fraud, employee error, misrepresenting by third parties, or unanticipated changes in financial markets.

ETHICS AND CONFLICTS OF INTEREST

Officer and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any larger personal financial/investment positions that could be related to the performance of the Agency's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Agency, particularly with regard to the timing of purchases and sales, and shall avoid transactions that might impair public confidence in the Agency's ability to govern effectively.

EVALUATION OF INVESTMENTS

The actions of Agency investment officers in the performance of their duties as managers of public funds shall be evaluated using the following "prudent person" standard applied in the context of managing the overall portfolio:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Agency investment officers acting in accordance with written policies and the "prudent person" standard and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that substantial deviations from expectations are reported by the Director of Finance to the City Manager within three days of discovery. Mutually agreeable remedial action will be taken by the Director of Finance and City Manager and reported to the Agency Board at their next regularly scheduled meeting.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Agency shall transact business only with banks and savings and loans, and investment securities dealers which/who comply with Schedule III (Policy Criteria for Selecting Broker/Dealers) attached. The Director of Finance will maintain a list of financial institutions authorized to provide investment services. He will also maintain a list of approved security brokers/dealers selected by credit worthiness who are authorized to provide investment services to the Agency. The dealers must be primary dealers regularly reporting to the Federal Reserve Bank. Exceptions to the primary dealer rule may be made with the approval of the Agency Board, provided they are consistent with California Government Code Section 53601.5.

All primary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, and U4 Form for the broker, completed broker/dealer questionnaire (see Schedule III) and certification of having read the Agency's investment policy. All secondary financial institutions and broker/dealers who desire to

become qualified bidders for investment transactions must supply an audited financial statement, proof of National Association of Securities Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire (see Schedule 111), U4 Form for the broker and certification of having read the Agency's investment policy. The Director of Finance shall determine if they are adequately capitalized, make markets on securities appropriate to the Agency's needs and are recommended by managers of portfolios similar to the Agency. The Director of Finance shall submit his findings and recommendations to the Agency Board. As part of their annual review of the Investment Policy, the Board will determine which broker/dealers will be authorized to trade with the Agency.

An annual review of the financial condition and registration of qualified bidders will be conducted. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the Agency invests.

The Agency shall at least annually send a copy of the current investment policy to all financial institutions and broker/dealers approved to do business with the Agency. Confirmation of receipt of this policy shall be considered evidence that the dealer has read and understands the Agency's investment policy and will recommend and execute only transactions suitable for and in compliance with the Agency's investment policy.

AUTHORIZED INVESTMENTS

The Agency is authorized by California Government Code Section 53600, et. seq. to invest in specific types of securities. The Agency has further limited the types of securities in which we may invest. Any security not listed, is not a valid investment for the Agency. The concise list of approved securities is as follows:

- A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio which can be invested in this category.
- B. Obligations issued by United States Government Agencies such as, but not limited to, the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), the Federal Home Mortgage Corporation (FHLMC), the Student Loan Marketing Association (SLMA), and the Tennessee Valley Authority (TVA). Although there is no percentage limitation of the dollar amount that can be invested in these issuers, the "prudent person" rule shall apply for any single agency name.
- C. The Local Agency Investment Fund (LAIF), established by the State Director of Finance for the benefit of local agencies and identified under Government Code Section 16429.1 is authorized up to the maximum amount permitted by State Law.

- D. The Agency may place funds in inactive deposits with Banks and Savings and Loans with a branch within California that have a rating of at least "A-1" from the *Financial Directory* or an equivalent rating from another generally recognized authority on ratings, and have an Equity to Total Assets ratio of at least 4%. All deposits shall be secured in accordance with Sections 53651 and 53652 of the California Government Code and comply with Schedule I (Policy Statement of Collateralized Time Deposits) attached. If deposits are not collateralized, the maximum placed at any one institution will be \$100,000. The maximum amount of collateralized inactive deposits placed at any one institution shall not constitute more than 10% of the total assets of the institution or \$2,000,000, whichever is less, and shall not exceed the total shareholders' equity of the issuing institution.
- E. The City may invest in the Dreyfuss Treasury Cash Management Fund as an overnight sweep account in conjunction with contracting with South Valley National Bank for banking services.

INVESTMENT POOLS

The Local Agency Investment Fund (LAIF) is authorized under provisions in Section 16429.1 of the California Government Code. The Agency's participation in the pool was previously approved by the Redevelopment Agency Board. The Agency will investigate all local government investment pools (LGP) prior to investing and periodically thereafter while the Agency is invested in the pool.

SAFEKEEPING OF SECURITIES

To protect against potential losses by the collapse of individual securities dealers, all securities owned by the Agency shall be held in safekeeping by a third party bank trust department acting as agent for the Agency under the terms of a custody agreement executed by the bank and the Agency. All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures. The third party bank trustee agreement must comply with Section 53608 of the California Government Code. No outside broker/dealer or advisor may have access to Agency funds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the Director of Finance.

DIVERSIFICATION

The Agency will diversify its investments by security type and investment. With the exception of bond reserve funds, bond escrow funds, and any other funds approved by the Agency Board, at all times at least 50% of the total portfolio shall mature in three years or less; at least 30% of the total portfolio shall mature in two years or less; at least 20% of the portfolio shall mature in one year or less.

MAXIMUM MATURITIES

The Agency will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, as approved by the Agency Board, the Agency will not directly

invest in securities maturing more than five years from the date of purchase. Bond reserve funds, bond escrow funds, and any other funds approved by the Agency Board may be invested in securities exceeding five years if the maturities of such investments are made to coincide as nearly as possible with the expected use of the funds.

BOND PROCEEDS

The Agency will direct the investment of proceeds on bonds issued as instructed in the bond indenture. Securities authorized by the bond indenture that are not authorized by the Agency's investment policy will only be used if they are specifically approved by the Agency Board. Unless otherwise approved by the Agency Board, all securities will be held in third-party safekeeping with the bond trustee, and all delivery-versus-payment rules will apply. Fees will be collected annually to compensate for administration costs.

REPORTING REQUIREMENTS

The Director of Finance shall render a report of investment activity to the Agency Board within 30 days following the end of the quarter. The report will include the type of investment, issuer, date of maturity, and par and dollar amount invested, on all securities, investments and monies held by the Agency. The report shall state market value and the source of the valuation, and state that the portfolio is in compliance with the policy or the manner in which it is not in compliance. The report will also include a statement denoting the ability to meet the Agency's expected expenditure requirements for the next six months or provide an explanation as to why sufficient money is not available. The report date will be the actual month-end date unless the last day of the month falls on a weekend or legal holiday. If the last day of the month is a weekend or legal holiday, the date of month-end report will be the last business day prior to the end of the month.

INVESTMENT POLICY ADOPTION

The Director of Finance shall submit an annual Statement of Investment Policy to the Redevelopment Agency Board for their approval. This statement shall be presented before June 30 of each year.

INVESTMENT POLICY REVIEW

The Agency's independent Certified Public Accountant shall annually review and make recommendations regarding the Agency investment policies to the extent considered necessary as required by generally accepted auditing standards as they relate to the annual financial audit which includes cash and investments.

MORGAN HILL REDEVELOPMENT AGENCY

POLICY STATEMENT ON COLLATERALIZED TIME DEPOSITS SCHEDULE I

Before the Treasury can place a time deposit with a local bank or savings and loan, the following, criteria must be met:

1. The bank must provide us with an executed copy of the "Contract for Deposit for Moneys" as specified in Section 53649 of the California Government Code.
2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans residing in Santa Clara County and must exceed the interest rate for treasury bills for a similar maturity period.
3. For investments less than \$ 100,000, FDIC insurance will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.
4. For investments exceeding \$100,000, there may be a waiver of collateral for the first \$100,000 deposited, and all of the funds placed on deposit must be collateralized by 105% of U.S. Treasury or Federal Agency securities, or by 150% of mortgages having maturities less than five years in accordance with Section 53652 of the California Government Code. The Agency must receive confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged must be maintained at a current market value 10% greater than the dollar amount of the deposit.
5. The Agency must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a "statement of financial condition" as well as an "income statement" depicting current and prior year operations.
6. The Agency will not place a fund deposit for more than \$2,000,000, or 10% of the assets of the institution, whichever is less.
7. The Agency must receive a certificate of deposit which specifically expresses the terms governing the transaction, (i.e., the period of time, name of depositor, interest rate, etc.).
8. All time certificates must have a maturity period not exceeding two years from the date of deposit with quarterly payments of interest based upon the stated interest rate.
9. The Agency must also receive a letter from the comptroller and/or Director of Finance of the bank at the time the deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists with any Agency official, officer or employee at the time the bank is receiving this deposit. The Agency has a fiduciary responsibility to make prudent investment of public funds, and to assure our investment practices are absent of any financial inducement or conflict in interest whatsoever.

10. Time deposits will only be made with qualified banks and savings and loans having branch office locations within Santa Clara County. However, time deposits with a bank or savings and loan must be centralized at one designated office location rather than making separate deposits with each branch office.

MORGAN HILL REDEVELOPMENT AGENCY

POLICY CRITERIA FOR SELECTING BROKER/DEALERS SCHEDULE II

1. All primary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, and U4 Form for the broker, completed broker/dealer questionnaire (made a part of this Schedule) and certification of having read the Agency 's investment policy. All secondary financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply an audited financial statement, proof of National Association of Securities Dealers certification, trading resolution, proof of state registration, completed broker/dealer questionnaire (made a part of this Schedule), U4 Form for the broker and certification of having read the Agency 's investment policy.
2. The net capital position of the firm shall be in excess of \$ 100 million.
3. The Director of Finance's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.
4. The firm must state in writing its willingness to be bound by the Agency 's written Investment Policy Guidelines.
5. The firm must provide an active secondary market for the securities it sells.
6. The firm must specify the types of securities it specializes in and will be made available for our account.
7. It is important that the firm provide related services that will enhance the account relationship which could include:
 - a) An active secondary market for its securities.
 - b) Internal credit research analysis on commercial paper, banker's acceptances and other securities it offers for sale.
 - c) Be willing to trade securities on our portfolio.
 - d) Be capable of providing market analysis, economic projections, newsletters.
 - e) Provide market education on new investment products, security spread relationships, graphs, etc.
8. The firm must be willing to provide us annual financial statements.
9. If requested, the firm must be willing to provide us a list of local government clients or other references, particularly those client relationships established within the State of California.
10. The Agency is prohibited from the establishment of a broker/dealer account for the purpose of holding the Agency 's securities. All securities must be subject to delivery at the Agency's

custodial bank.

11. Without exception, all transactions are to be conducted on a "delivery vs. payment" basis.
12. The broker/dealer shall be headquartered or have a branch office in California- Except for the above, the Agency will not conduct security transactions with any firm located out of state.
13. The broker/dealer must have been in operation for more than 5 years, and must have net capital in excess of \$100 million.
14. No business relationship shall be established with firms engaging in the sale of "exotic" products. Exotic means "unusually high yields," no ready secondary market, "high price volatility" on the security.
15. The firm must be registered with the State of California's regulatory agency.
16. No broker/dealer or security firm shall be selected who has made a political contribution to the local Director of Finance or any member of the Redevelopment Agency governing board or to any candidate for these offices.

Broker/Dealer Questionnaire

Name of Firm:

Address:

Telephone No.:

Primary representative

Manager

Name:

Title:

Telephone No:

1. Are you a recognized primary dealer in Government securities?
() Yes () No
2. If so, how long has your firm been a primary dealer?
_____ years.
3. Are you a retail or institutional brokers?
4. What was your firm's total volume in U. S. Government and agency securities trading last year?
Firm-wide \$ _____
Your office \$ _____
5. Which instruments are offered regularly by your trading desk?
() T-bills () BA's (domestic)
() T-notes and bonds () BA's (foreign)
() Agencies (specify) () Commercial Paper
FFCB, FHLB, FNMA () Bank C. D.'s

FHLMC, SLMA, TVA

() S & L C. D.'s

WORLD BANK

() Repurchase Agreements

() Medium Term Corporate Notes

() Reverse Repurchase
Agreements

() Mutual Funds (eligible for public investment)

6. Identify all personnel who will be trading with or quoting securities to the City.

Name

Title

Phone

7. Please identify your most directly comparable City/Local Agency clients in our geographical area.

Entity

Contact Person

Phone

Client
Since

8. Is there anything in your background in the government securities business that makes you stand out above the rest? Why should the City of Morgan Hill deal with you?

9. Have any of your public sector clients ever sustained a loss on a securities transaction arising from a misunderstanding or misrepresentation of the risk characteristics of a particular instrument? If so, please explain.

10. Has any public sector client ever claimed in writing that your firm was responsible for investment losses? Explain.

11. Has your firm consistently complied with the Federal Reserve Bank's capital adequacy guidelines? Include certified documentation of your capital adequacy as measured by Federal Reserve standards.

12. Please provide certified financial statements and other statements regarding your firm's capitalization.

13. Please include samples of research reports that your firm regularly supplies to public sector clients.

14. Are you a Broker instead of a Dealer (i.e. you DO NOT own positions of securities)?
15. What reports, transactions, confirmations and paper trail would the City receive?
16. What training information would you provide to our employees and investment officers?
17. How many and what percentage of your transactions failed last month? Last year?
18. What portfolio information do you require from clients?

--CERTIFICATION--

I hereby certify that I have personally read the Morgan Hill Redevelopment Agency's Investment Policy and the California Government Codes pertaining to the investments of the Morgan Hill Redevelopment Agency, and have implemented reasonable procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted by our firm on behalf of the Morgan Hill Redevelopment Agency, considering the Agency's investment objectives, strategies and risk constraints. We pledge to exercise due diligence in informing the Agency Treasury staff of all foreseeable risks associated with financial transactions conducted by our firm. I attest to the accuracy of our responses to the above questionnaire.

NOTE: Completion of this questionnaire is only part of the Morgan Hill Redevelopment Agency's Certification process and DOES NOT guarantee that the applicant will be approved to do business with the Agency.

SIGNED
(Account Representative)

SIGNED
(Countersigned by Company President or person in charge of government securities operations.)

DATED

MORGAN HILL REDEVELOPMENT AGENCY

FIRMS AUTHORIZED TO CONDUCT INVESTMENT TRANSACTIONS
SCHEDULE III

The Agency is authorized to conduct investment security transactions with the following investment firms and broker/dealers, many of which are designated by the Federal Reserve Bank as primary government dealers. Security transactions with firms, other than those appearing on this list, are prohibited.

A. Firms designated by the Federal Reserve Bank as Primary Government Dealers:

None

B. Other authorized firms:

Union Bank of California
Fahnestock & Co., Inc.

MORGAN HILL REDEVELOPMENT AGENCY
Authorized Investments Ranked by Authority and Degree of Risk
April 16, 2003

AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS
U.S. TREASURY BILLS & NOTES	No Limit	No Limit
DREYFUSS TREASURY CASH MANAGEMENT FUND	No Limit	No Limit
U.S. GOVERNMENT AGENCIES	No Limit	No Limit
LOCAL AGENCY INVESTMENT FUND	No Limit	Max. Set by Gov't Code- currently \$40 m per acct.
TIME DEPOSITS	Max 5% of portfolio (excluding gov't agency and LAIF)	Max \$2 million per institution Collateral = 105% to 150%
REPURCHASE AGREEMENTS	Not Authorized	Not Authorized
MONEY MARKET MUTUAL FUNDS	Not Authorized	Not Authorized
BANKERS' ACCEPTANCES	Not Authorized	Not Authorized
COMMERCIAL PAPER	Not Authorized	Not Authorized
MEDIUM-TERM CORPORATE NOTES	Not Authorized	Not Authorized
NEGOTIABLE CD'S	Not Authorized	Not Authorized
REVERSE REPURCHASE AGREEMENTS	Not Authorized	Not Authorized
ASSET BACKED SECURITIES	Not Authorized	Not Authorized
STATE & LOCAL INDEBTEDNESS	Not Authorized	Not Authorized

GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered. (The price at which a firm will sell a security to an investor.)

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BASIS POINT: One one-hundredth of a percent (i.e., 0.01%).

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.)

BROKER: A broker brings buyers and sellers together for a commission. He does not take a position.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COUPON: a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt.

Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (e.g., U.S. Treasury Bills).

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions (e.g. S&L's, Small business firms, students, farmers, farm cooperatives, and exporters).

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A Federal agency that insures bank deposits, currently up to \$100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of

the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C.; 12 regional banks and about 5,700 commercial banks are member of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT

POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Director of Finance for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKET REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See "Asked" and "Bid".

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit. Sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states, the law requires that a fiduciary, such as a trustee, may invest money

only in a list of securities selected by the custody state--the so-called "legal list". In other states, the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

REPURCHASE AGREEMENT (RP or REPO): a holder of securities sells these securities to an investor with an agreement to purchase them at a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See "Uniform Net Capital Rule".

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three month, six months or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term coupon bearing U.S. Treasury securities having initial

maturities of from one year to ten years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker/dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, on reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD or YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Council Member Cook said that she would not oppose referencing Alice Sturgis' Standard Code of Parliamentary Procedures in the policy.

Council Member Chang recommended that the Council adopt what is before it tonight. One Alice Sturgis rules have been obtained and reviewed, it can be adopted at a later date.

City Attorney Baum recommended that the Council use the Alice Sturgis' Standard Code Parliamentary Procedure as the document to be referenced.

ACTION *On a motion by Council Member Chang and seconded by Council Member Cook, the City Council, on a 4-1 vote with Mayor Pro Tem Freeman voting no, **Adopted** City Council Policy #97-01 Adopting Rules for the Conduct of City Council Meetings, adding paragraph three relating to inter council discussion as recommended by Council Member Cook and to add the use of Alice Sturgis' Standard Code of Parliamentary Procedure as a reference guide.*

11. REVISED INVESTMENT POLICY

Finance Director Eckert presented the staff report.

ACTION: *On a motion by Council Member Foster and seconded by Council Member Chang, the City Council unanimously (5-0) **Adopted** the Revised City Investment Policy.*

ROLL CALL VOTE

ACTION: *On a motion by Mayor Pro Tem Freeman and seconded by Council Member Foster, the City Council approved Consent Calendar Items 12 and 13 as follows:*

12. SECOND READING AND ADOPTION OF ORDINANCE NOS. 1332 AND 1333, NEW SERIES

ORDINANCE NO. 1332, N.S. -- *Adoption of Ordinance No. 1332, New Series - An Ordinance of the City Council of the City of Morgan Hill Approving a Zoning Amendment from R-2 (3,500) to R-2 (3,500)/RPD, Residential Planned Development Establishing a Precise Development Plan for a 48-unit Residential Planned Development on an 8.34 Acre Portion of a 10-Acre Parcel on the South Side of Barrett Avenue, West of Medical Center Drive. (APN 817-09-008) as amended, by the following vote: AYES: Kennedy, Freeman, Chang, Cook, Foster; NOES: None; ABSTAIN: None; ABSENT: None.*

ORDINANCE NO. 1333, N.S. -- *Adoption of Ordinance No. 1333, New Series - An Ordinance of the City of Morgan Hill Approving a Development Agreement for a 48-units Single Family Attached residential Development Awarded an Allocation through the Residential Development Control System for Fiscal Year 1997-98, and Fiscal Year 1998-99 by the following vote: AYES: Kennedy, Freeman, Chang, Cook, Foster; NOES: None; ABSTAIN: None; ABSENT: None.*



CITY COUNCIL STAFF REPORT

MEETING DATE: May 28, 2003

MEASURE P APPEAL APPLICATION AP-03-01: E. DUNNE - DEMPSEY

RECOMMENDED ACTION(S):

1. Open/Close the public hearing.
2. Deny Appeal and adopt attached resolution with findings.
3. If appeal is granted, direct Planning Commission to modify allotment evaluation and final distribution of the building allotment if applicable.

EXECUTIVE SUMMARY:

On April 22, 2003, the Planning Commission concluded this year's Measure P competition for Market Rate residential projects. Applicants whose projects did not score high enough and failed to receive an allotment may appeal the Commission's evaluation of their project to the City Council. The appeal process is provided under Section 18.78.130 of the Municipal Code. The Council may affirm or modify the allotment evaluation after conducting a hearing on the matter.

The project is an 80-unit single-family attached development on 15 acres located on the southside of East Dunne Avenue, west of San Benanico Way. If the appeal is not granted, the applicant will have another opportunity to compete for a building allotment for Fiscal Year 2006-07 in October 2004, when applications will be accepted for the next Measure P competition.

Appeal Request:

The applicant, Janet Dempsey, is appealing the Planning Commission's project evaluation under Part 2 of the Residential Development Control System (Measure P) scoring criteria. Ms. Dempsey is objecting to the final points given in the School, Public Facilities, Circulation Efficiency and Natural and Environmental categories. The project received a final score of 177 points. The last project on the list to receive an east side building allotment, received a final score of 179.5 points. The specifics of the applicant's appeal are outlined in the attached letter dated April 22, 2003. The attached memorandum is the staff response to the requested scoring adjustments. Upon review, staff is recommending no adjustment in the project's final score. The attached project narrative contained evaluation criteria for each of the above categories, along with the applicant's original scoring comments and the staff evaluation comments. The attached memorandum dated March 25, 2003, and accompanying Planning Commission minutes outline the previous scoring approved by the Planning Commission for this project and others.

FISCAL IMPACT:

No budget adjustment required.

Agenda Item # 6

Prepared By:

Planning Manager

Approved By:

**Community
Development Director**

Submitted By:

City Manager



MEMORANDUM

To: CITY COUNCIL

Date: MAY 28, 2003

From: COMMUNITY DEVELOPMENT DEPARTMENT

**Subject: MEASURE P APPEAL APPLICATION AP-03-01: E. DUNNE -
DEMPSEY**

REQUEST

The applicant, Janet Dempsey, is appealing the Planning Commission's project evaluation under Part 2 of the Residential Development Control System (Measure P) scoring criteria. Ms. Dempsey is objecting to the final points awarded by the Planning Commission in the School, Public Facilities, Circulation Efficiency and Natural and Environmental categories.

CASE ANALYSIS

The project received a final score of 177 points. The last project on the list to receive an east side building allotment, received a final score of 179.5 points. The specifics of the applicant's appeal are outlined in the attached letter dated April 22, 2003. The following is the staff response to the requested scoring adjustments:

Schools Category

Projects are assigned up to one point under Section B2b of the Schools category for providing or having a safe walking route between the residential project and a nearby school. The project must be within a $\frac{3}{4}$ mile walking distance to the school in order for the criteria to apply. When crossing a collector street, in this case San Pedro Avenue, crossing must occur at a signalized intersection. In order for students from this project to cross safely, they would need to cross at the signalized intersection at Butterfield Boulevard. This would extend the walking distance from this project beyond the $\frac{3}{4}$ mile limit. No change in the total score is recommended.

Public Facilities Category

The applicant is requesting one additional point under criterion B.2.d of this category. The applicant proposes to provide an oversized pond that the adjacent First Community Housing project would also use for storm water mitigation. However, the First Community Housing project is already under construction and graded such that storm water flows to the west (away from the proposed project) into Butterfield Channel. The First Community Housing project would be unable to reconstruct their

storm mitigation system in order to use the proposed project (Jasper Park) storm drainage basin. The other areas surrounding the project are already built such that there is no feasible way to use the Jasper Park pond; an oversized pond would not be able to serve any adjacent project.

Regarding the prior precedence referenced in the appeal letter, the Monte Villa (Delco Builders) MP 2000 project was awarded points for similar accommodation of the adjacent Twin Oaks (Sheng) MP 2000 project run-off. The two projects were acquired by the same developer and the drainage systems of the two developments were interconnected. In this case, the applicant proposed to have almost all of the Jasper Park run-off flow detained on site with no real accommodation to collect and detain drainage from surrounding development.

Staffs review of the Monte Villa project showed that Monte Villa provided a detention pond appropriately located and sized to accommodate future adjacent development. Monte Villa's detention pond was oversized to accommodate more runoff than the project required. The Monte Villa pond provided 6.0 acre-feet of storage volume when only 3.0 acre-feet was required. No change in the final score under this category is recommended.

Circulation Efficiency

The applicant is requesting the full two points under Section B.3.b of this category. Points are awarded under this category for providing stub streets to adjacent properties to ensure proper access and circulation in the future.

The proposed street stub does not satisfy the criteria for this category since it is not adjacent to the proposed project. Instead it is located across the street on the north side of East Dunne Avenue. No change in the final score under this category is recommended.

Natural and Environmental

Criterion B.1.d of the Natural and Environmental Category awards up to two points for a project site design that ***substantially preserves trees***, the existing terrain, and other natural ground features. The project site is relatively flat and contains 18 existing trees. The project was awarded 1 point for preserving 8 of the trees. The applicant argues that the 10 trees to be removed are insignificant. The criterion does not distinguish between significant and insignificant, only that a project site design substantially preserves trees. More than half the trees on the site are to be removed. No change in the total score is recommended.

Upon review, staff is recommending no adjustment in the project's final score. The attached project narrative contained evaluation criteria for each of the above categories, along with the applicant's original scoring comments and the staff evaluation comments. The attached memorandum dated March 25, 2003 and accompanying Planning Commission minutes outline the previous scoring approved by the Planning Commission for this project and others.

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL DENYING AN APPEAL APPLICATION UNDER THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM FOR OPEN/MARKET RESIDENTIAL PROJECTS IN FISCAL YEAR 2004-05 AND FISCAL YEAR 2005-06. APPLICATION AP-03-01: EAST DUNNE - DEMPSEY.

WHEREAS, the City Council received three application appealing the April 22, 2003 Planning Commission evaluation and award of residential building allotments pursuant to Chapter 18.78 of the Morgan Hill Municipal Code; and

WHEREAS, pursuant to Section 18.78.130 of the Municipal Code, the City Council serves as the appellate body in matters relating to the evaluation and award and issuance of allotments under the Residential Development Control System; and

WHEREAS, the first appeal request, application AP-03-01: E. Dunne - Dempsey, was heard by the City Council at a meeting held on May 28, 2003; and

WHEREAS, the City Council has determined that the final project score and approved distribution should remain within the limited allotment (total allocation) established for the 2004-2005 fiscal year and 2005-2006 fiscal year as approved by the Planning Commission; and

WHEREAS, testimony received at a duly-noticed public hearing, along with exhibits and drawings and other materials have been considered in the review process;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORGAN HILL THAT:

SECTION 1: FINDINGS FOR APPEAL APPLICATION AP-03-01 FOR FILE #MP-02-06: E. DUNNE - DEMPSEY.

- A. The City Council finds that the Planning Commission correctly evaluated this project by awarding no points under Sections B2a and B2b of the Schools category. Students would be required to cross San Pedro Avenue, a designated collector street. A safe walking route from the nearest signalized intersection on San Pedro would extend the walking distance between this project the nearest school beyond the $\frac{3}{4}$ mile limit specified in the criteria.
- B. As described in the May 28, 2003 staff memorandum on this item, the City Council finds that the project is not entitled to an additional point under Section B.2.d of the category because the on-site storm detention basin cannot accommodate drainage from off-site development. The other areas surrounding the projects are already built such that there is no feasible way to use the proposed project pond; an oversized pond would not be able to serve any adjacent project.

- C. The City Council finds that the applicant is not entitled to the full two points under Section B.3.b of this category. Points are awarded under this category for providing stub streets to adjacent properties to ensure proper access and circulation in the future. The proposed street stub does not satisfy the criteria for this category since it is not adjacent to the proposed project. Instead it is located across the street on the north side of East Dunne Avenue.
- D. The City Council finds that the project is not entitled to an additional point under Section B.1.d of the Natural and Environmental Category. Up to two points are awarded under the criterion for a project site design that *substantially preserves trees*, the existing terrain, and other natural ground features. The project will remove 10 of 18 trees on the site and therefore is entitled to only a partial credit of one point.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 28th Day of May, 2003, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**

🍷 CERTIFICATION 🍷

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. , adopted by the City Council at a Special Meeting held on May 28, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: May 28, 2003

MEASURE P APPEAL APPLICATION AP-03-02: BARRETT - ODISHOO

RECOMMENDED ACTION(S):

1. Open/Close the public hearing.
2. Deny Appeal and adopt attached resolution with findings.
3. If appeal is granted, direct Planning Commission to modify allotment evaluation and final distribution of the building allotment if applicable.

EXECUTIVE SUMMARY:

On April 22, 2003, the Planning Commission concluded this year's Measure P competition for Market Rate residential projects. Applicants whose projects did not score high enough and failed to receive an allotment may appeal the Commission's evaluation of their project to the City Council. The appeal process is provided under Section 18.78.130 of the Municipal Code. The Council may affirm or modify the allotment evaluation after conducting a hearing on the matter.

The project is a 36-unit single family attached development on 7 acres located on the south side of Barrett Avenue, east of the future extension of Butterfield Boulevard. If the appeal is not granted, the applicant will have another opportunity to compete for a building allotment for Fiscal Year 2006-07 in October 2004, when applications will be accepted for the next Measure P competition.

Appeal Request:

The applicant, Pennoel Odishoo, is appealing the Planning Commission's project evaluation under Part 2 of the Residential Development Control System (Measure P) scoring criteria. Mr. Odishoo is objecting to the final points awarded by the Planning Commission in the Public Facilities, Quality of Construction and Lot Layout categories. The project received a final score of 178.5 points. The last project on the list to receive an east side building allotment, received a final score of 179.5 points. The specifics of the applicant's appeal are outlined in the attached letter received May 6, 2003. The attached memorandum is the staff response to the requested scoring adjustments. Upon review staff is recommending no adjustment in the project's final score. The attached project narrative contained evaluation criteria for each of the above categories along with the applicant's original scoring comments and the staff evaluation comments. The attached memorandum dated March 25, 2003 and accompanying Planning Commission minutes outline the previous scoring approved by the Planning Commission for this project and others.

FISCAL IMPACT:

No budget adjustment required.

Agenda Item # 7

Prepared By:

Planning Manager

Approved By:

**Community
Development Director**

Submitted By:

City Manager



MEMORANDUM

To: CITY COUNCIL

Date: MAY 28, 2003

From: COMMUNITY DEVELOPMENT DEPARTMENT

Subject: MEASURE P APPEAL APPLICATION AP-03-02: BARRETT - ODISHOO

REQUEST

The applicant, Pennoel Odishoo, is appealing the Planning Commission's project evaluation under Part 2 of the Residential Development Control System (Measure P) scoring criteria. Mr. Odishoo is objecting to the final points awarded by the Planning Commission in the Public Facilities, Quality of Construction and Lot Layout categories.

CASE ANALYSIS

The project received a final score of 178.5 points. The last project on the list to receive an east side building allotment, received a final score of 179.5 points. The specifics of the applicant's appeal are outlined in the attached letter received on May 6, 2003. The following is the staff response to the requested scoring adjustments:

Public Facilities

Applicant requests points for full street improvements on the Chiri property located immediately south of the proposed development. The project is improving Saint James Drive to a full street where only a half street would have been required to provide access to properties fronting Saint James Drive. Applicant provided an estimated cost of improvements of \$91,379 total. Even if the applicant were awarded points for full street improvements, the project would still have received 0 points under this category, because the points were redundant under the Circulation Efficiency category. $\$91,379/36 \text{ units} = \$2,538$ which warrants 2 points total for Circulation Efficiency 5c.

According to Measure P instructions, the cost of the offered public improvements and dedication shall be equal to or greater than \$1000 per unit per point. Should the offered dedication and improvements be redundant to those offered under 5a-c of the Circulation Efficiency category, the value of the redundant improvements will be reduced by \$1000 per unit per point for each point awarded under 5a-c in the Circulation Efficiency category. For example, if redundant improvements are valued at \$3000

per unit under the Public Facilities category, and 2 points were awarded for them in the Circulation Efficiency Category, then only 1 point would be awarded for them under Public Facilities.

The cost of the deducted square footage of grading, asphalt concrete, and aggregate base and linear footage of sidewalk and curb and gutter was not enough to affect the points awarded. No change in the total score is therefore recommended.

Quality of Construction

The applicant is requesting one point under criterion B.5 of the Quality of Construction category. This criterion is a single point awarded by the Planning Commission when a project is judged by the Commission to be superior with respect to overall project excellence. The applicant is requesting the one point and also objects to the fact that only five of the seven Commissioners provided a scoring recommendation. With respect to this last item, only six Commissioners were able to participate in the Measure P process. Commissioner Escobar had a conflict of interest and was absent from the proceedings. Commissioner Weston was absent from one of the meetings and chose to abstain from the Quality of Construction scoring. The remaining Commissioners represents a quorum and therefore the average scores from each of the voting Commissioners are valid.

With regard to the one point adjustment, the criterion is evaluated entirely by the Planning Commission and the Commission's average score place this below those projects that receive the one point for overall project excellence. Any adjustment in the scoring should be referred by to the Planning Commission for consideration.

Lot Layout

The applicant is requesting the maximum 2 points under criterion B1.f of the Lot layout category for a **superior lot layout**. To receive the maximum points, the site plan requires no major change (from the Measure P submittal) and has 2 or less minor problems. The project received 1 point for Criteria B.1, because the project layout has three minor design problems. Projects with 1 major design problem or has 3 minor problems are defined as above average projects and receive 1 point. The project design flaws are as follows:

1. The home on lot 28 is out of place within the subdivision. The home has a 131 foot lot frontage, when the majority of the homes have a 40 ft. frontage. The size of the lot is also considerably larger, 2000 sq. ft. greater than the rest. The home is also not repeated anywhere else in the subdivision. This was considered a minor site layout problem.
2. The only homes facing Barrett Ave. are two triplex buildings (3 units each), which represent 50% of the triplex units within the project. Four of the six triplex units on Barrett are designated as moderate rate or BMR units, representing 50% of the moderate units and 50% of the BMRs for the project. This was considered a minor site layout problem.
3. Thirty percent of the units have side-by-side driveway aprons (lots 1 & 2, 5 & 6, 9 & 10, 29 & 30 and 34 & 35). This was considered a minor site layout problem.

No change in the total score is recommended.

Upon review, staff is recommending no adjustment in the project's final score. The attached project narrative contained evaluation criteria for each of the above categories, along with the applicant's

APPEAL: AP-03-02: BARRETT ODISHOO

Page 3

original scoring comments and the staff evaluation comments. The attached memorandum dated March 25, 2003 and accompanying Planning Commission minutes outline the previous scoring approved by the Planning Commission for this project and others.

Attachment

Appeal Letter received May 6, 2003

Project Narrative

Planning Commission Minutes of 3/18, 3/25 and 4/8/03

Memorandum dated 3/25/03 (attached to Appeal 03-01 application)

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL DENYING AN APPEAL APPLICATION UNDER THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM FOR OPEN/MARKET RESIDENTIAL PROJECTS IN FISCAL YEAR 2004-05 AND FISCAL YEAR 2005-06. APPLICATION AP-03-02: BARRETT - ODISHOO.

WHEREAS, the City Council received three application appealing the April 22, 2003 Planning Commission evaluation and award of residential building allotments pursuant to Chapter 18.78 of the Morgan Hill Municipal Code; and

WHEREAS, pursuant to Section 18.78.130 of the Municipal Code, the City Council serves as the appellate body in matters relating to the evaluation and award and issuance of allotments under the Residential Development Control System; and

WHEREAS, the second appeal request, application AP-03-02: Barrett - Odishoo, was heard by the City Council at a meeting held on May 28, 2003; and

WHEREAS, the City Council has determined that the final project score and approved distribution should remain within the limited allotment (total allocation) established for the 2004-2005 fiscal year and 2005-2006 fiscal year as approved by the Planning Commission; and

WHEREAS, testimony received at a duly-noticed public hearing, along with exhibits and drawings and other materials have been considered in the review process;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORGAN HILL THAT:

SECTION 1: FINDINGS FOR APPEAL APPLICATION AP-03-02 FOR FILE #MP-02-22: BARRETT - ODISHOO.

- A. As described in the May 28, 2003 staff memorandum on this item, the City Council finds that the engineer's estimate for the value of the offered public improvements and dedication under Section B.2.f of the Public Facilities Category is equal to three points total. However, given that two points were awarded for these same improvements in the Circulation Efficiency category, the project is entitled to only one point under criterion B.2.f. The note under Section B.2.f of the evaluation criteria specifically states that should the offered dedication and improvements are redundant to those offered under 5a – c. of the Circulation Efficiency category, the value of the redundant improvements will be reduced for each point awarded under B.5a – c of the Circulation Efficiency category. The City Council therefore upholds the Planning Commission's evaluation under this category.

- B. With regard to the applicant's appeal of the Quality of Construction score, the City Council finds that five voting Commissioner represents a quorum and therefore the average scores from each of the voting Commissioners are valid.

With regard to the one point adjustment, the criterion is evaluated entirely by the Planning Commission and the Commission's average score place this below those projects that receive the one point for overall project excellence. Any adjustment in the scoring would need to be referred by to the Planning Commission for consideration...

- C. The applicant is requesting the maximum 2 points under criterion B1.f of the Lot layout category for a *superior lot layout*. To receive the maximum points, the site plan requires no major change (from the Measure P submittal) and has 2 or less minor problems. As described in the May 28, 2003 staff memorandum on this item, the project received 1 point for Criteria B.1, because the project layout has three minor design problems. The City Council therefore upholds the Planning Commission's evaluation under this category.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 28th Day of May, 2003, by the following vote.

AYES: **COUNCIL MEMBERS:**
NOES: **COUNCIL MEMBERS:**
ABSTAIN: **COUNCIL MEMBERS:**
ABSENT: **COUNCIL MEMBERS:**

🔊 CERTIFICATION 🔊

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. , adopted by the City Council at a Special Meeting held on May 28, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: May 28, 2003

MEASURE P APPEAL APPLICATION AP-03-03: W.

EDMUNDSON – PINN BROS.

RECOMMENDED ACTION(S):

1. Open/Close the public hearing.
2. Deny Appeal and adopt attached resolution with findings.
3. If appeal is granted, direct Planning Commission to modify allotment evaluation and final distribution of the building allotment if applicable.

EXECUTIVE SUMMARY:

On April 22, 2003, the Planning Commission concluded this year's Measure P competition for Market Rate residential projects. Applicants whose projects did not score high enough and failed to receive an allotment may appeal the Commission's evaluation of their project to the City Council. The appeal process is provided under Section 18.78.130 of the Municipal Code. The Council may affirm or modify the allotment evaluation after conducting a hearing on the matter.

The project is a 45-unit single family development on 13 acres located on the south-side of West Edmundson Avenue, south of the Community Park. If the appeal is not granted, the applicant will have another opportunity to compete for a building allotment for Fiscal Year 2006-07 in October 2004, when applications will be accepted for the next Measure P competition.

Appeal Request:

The applicant, Robert Peterson, representing Pinn Bros. Construction Inc., is appealing the Planning Commission's project evaluation under Part 2 of the Residential Development Control System (Measure P) scoring criteria. Mr. Peterson is objecting to the final points awarded by the Planning Commission in the Schools, Orderly and Contiguous, Housing Needs, Housing Types, Quality of Construction, Lot Layout and Circulation Efficiency categories. The project received a final score of 155.38 points. The last project on the list to receive a west side building allotment, received a final score of 171.5 points. The specifics of the applicant's appeal are outlined in the attached letter received May 6, 2003. The attached memorandum is the staff response to the requested scoring adjustments. Upon review, staff is recommending no adjustment in the project's final score. The attached project narrative contained evaluation criteria for each of the above categories, along with the applicant's original scoring comments and the staff evaluation comments. The attached memorandum dated March 25, 2003 and accompanying Planning Commission minutes outline the previous scoring approved by the Planning Commission for this project and others.

FISCAL IMPACT:

No budget adjustment required.

Agenda Item # 8

Prepared By:

Planning Manager

Approved By:

**Community
Development Director**

Submitted By:

City Manager



MEMORANDUM

To: CITY COUNCIL

Date: MAY 28, 2003

From: COMMUNITY DEVELOPMENT DEPARTMENT

**Subject: MEASURE P APPEAL APPLICATION AP-03-03: W EDMUNDSON
– PINN BROS.**

REQUEST

The applicant, Robert Peterson, representing Pinn Brothers Construction Inc., is appealing the Planning Commission's project evaluation under Part 2 of the Residential Development Control System (Measure P) scoring criteria. Mr. Peterson is objecting to the final points awarded by the Planning Commission in the Schools, Orderly and Contiguous, Housing Needs, Housing Types, Quality of Construction, Lot Layout and Circulation Efficiency categories.

CASE ANALYSIS

The project received a final score of 155.38 points. The last project on the list to receive a west side building allotment received a final score of 171.5 points. The specifics of the applicant's appeal are outlined in the attached letter dated April 30, 2003. The following is the staff response to the requested scoring adjustments:

Schools Category

The applicant is requesting one point under Section B.1.b for providing a safe walking route serving grades 4 through 6. Projects are assigned up to one point under Section B2b of the Schools category for providing or having a safe walking route between the residential project and a nearby school. The project must be within a $\frac{3}{4}$ mile walking distance to the school in order for the criteria to apply. When crossing a collector street, in this case La Crosse Drive, crossing must occur at a signalized intersection. No signalized intersection is available for a safe crossing. No change in the total score is recommended.

Orderly and Contiguous

The applicant is requesting an additional point under Section B.5 of this category for an above average Master Plan Design.

Per the Measure P criteria, *"A project will be awarded one point if no significant design flaws can be found, and the design gives strong consideration to the issues of circulation, access, density transitions, and the use of common open space."*

The project was not awarded one point because the project master plan has significant design flaws, and the design does not give strong consideration to the issues of circulation, density transitions, and the use of common open space.

- 1) **Circulation** - As currently designed, the western half of the project is one long dead-end street. A through connection cannot occur until either the Allman property or the County property to the west develop.
- 2) **Density transitions** - Internal density transition needs improvement. For example, Lot 8 sides onto four attached units, Lot 19 is bordered on both sides by duets, and there is a large jump in lot size between Lots 4 and 5, and Lots 39 and 40.
- 3) **Aggregation and use of common open space areas** - The cul-de-sac off Piazza Way fragments the open space area in the eastern half of the project. By rearranging the units in this area, the open space could be aggregated into a more useable area. The open space area between Lot 26 and the Allman property is also unusable as designed.
- 4) **Allman property** - It is Staff's understanding that the Allman property is not under contract with Pinn Bros. However, Staff recommends that the Allman property be 'incorporated' into the master plan by providing access from the project cul-de-sac. Redesign/realignment of the cul-de-sac could also allow for one additional unit along the west property line by eliminating the unusable open space area between Lot 26 and the Allman property.

For the reasons listed above, Staff does not feel that the project master plan is above average. Therefore, no points were awarded.

Housing Needs – Section B.2

The applicant is requesting the full two points under Section B.2 of this category. Points are awarded under this category for providing 10 percent of a particular housing type (see criteria), in addition to the 10 percent of the housing type devoted to BMR units. This 45-unit project includes the following zoning designations: R-1 and R-2.

In the R-1 area, this project does include attached units; however, the dwellings are also the BMR homes. The project fails to provide the 10 percent attached dwellings over and above the BMR units as specified by the scoring criteria to achieve the desired one point.

In the R-2 area, the project includes one detached dwelling, or 2%. One unit is insufficient to earn this project a point in this category.

Housing Needs – Section Item B.4

The applicant is requesting 13 points. The Planning Commission awarded the project 5 points. Throughout the application, Pages: 3, 5, 28, 30, and 34 of the Project Narrative (attached) the applicant consistently refers to 4 BMR homes. During the interviews with the developers, the applicant made no mention of a discrepancy between the application and the Site Development Plan. Evaluation was conducted using the information in the application.

The application includes a commitment of 8.8% BMR homes; the criteria specifies 5 points for this type of commitment.

Housing Types – Section B1.a

The applicant is requesting 6.5 points under this Section. A closer review of the location of the dwellings in relationship to the R1 and R2 zones resulted in the following score revision:

R1 - 20 Single-Family detached (44%)

4 BMR units (attached) do not count as a housing type

5 Secondary Dwelling Units (11%)

1 Single Story dwellings (2%)

Two of the housing types qualify as such for 4 points.

R2 – 1 Single Family Detached (2%)

14 Single-Family Attached (31%)

One of the housing types qualifies for 2 points.

The points awarded were prorated by zone, with the following results: 3.3 points.

Housing Types – Section B.1.b

Pages: 5, 33, of the application refers to 4 moderate homes. During the interviews with the developers, the applicant made no mention of a discrepancy between the application and the Site Development Plan. Evaluation was conducted using the information in the application.

The application includes a commitment of 8.8% moderate homes. The scoring criteria specifies 2 points for a 10% commitment. This project does not meet the criteria to award it the requested 2 points.

Quality of Construction

The applicant is requesting one point under criterion B.5 of the Quality of Construction category. This criterion is a single point awarded by the Planning Commission when a project is judged by the Commission to be superior with respect to overall project excellence. This criterion is evaluated entirely by the Planning Commission. Rather than score all 23 application, the Planning Commission chose to award the point only to those projects that were in the running and had an initial score that would put them in to a position to receive a building allotment. As noted above, this project received a total score of 155.38 points and the lowest scoring project on the west side received a total score of 171.5 points. One additional point in this category would not have been sufficient to bridge the gap between the two scores. Any adjustment in the scoring should be referred by to the Planning Commission for consideration.

Lot Layout

The applicant is requesting two points under Section B.1.f for a superior lot layout. The project received zero points for Section B.1.f because the project layout has three major design problems and three minor design problems. Projects with 2 or more major design problem are defined as an average project and receive 0 points. The project design flaws are as follows:

1. The pathway at the end of the cul-de-sac is undesirable. The location of the cul-de-sac within the park area already makes it accessible to the residents. It is not an unreasonable distance for a resident within that cul-de-sac to use the pathway and side walks located adjacent to the cul-de-sac to access the park. Residents also frequently object to “others” coming through “their” street to access the park. This was considered a minor site layout problem. Other projects with similar paths were scored down.
2. The pathway at the end of the cul-de-sac also impacts the front yard on lots 6 & 7. This was considered a minor site layout problem.
3. The cul-de-sac within the park area creates a short block. The cul-de-sac is too close to the Edmundson project entry. This was considered a major site layout problem.
4. The cul-de-sac inserted into the project park area, fragments a lot of the park area into less useable stripes. This was considered a major site layout problem.
5. The connection of the street in the northwest corner of the project would be desirable however, the applicant has indicated (and the homeowner) that the property is not for sale. Recognizing that the street cannot go through, the best design solution would have been to extend the cul-de-sac up to the “Allman” property to allow the parcel access through the end of the cul-de-sac. This was considered a minor site layout problem.
6. The angle of the proposed cul-de-sac also creates remnant property on the west side of the cul-de-sac. The angle of the street(s) should be adjusted in an easterly direction to include a lot at this location. This was considered a major site layout problem.

Based on the above considerations, staff recommends the City Council uphold the Planning Commission evaluation under this category.

Circulation Efficiency

The applicant is requesting one point under Section B.1 of this category. A point may be awarded under this category for providing on-site walkways and bike paths which are not adjacent to city standard sidewalks.

The proposed on-site walkways and bike paths for the project are adjacent/redundant to the required city standard sidewalks. Therefore, the project is not entitled to the point for this Section.

The applicant is requesting one point be awarded under Section B.3.e Projects may receive a point under this category by avoiding the creation of short blocks between existing and /or proposed streets. A short block is considered to be less than two hundred sixty feet from centerline-to-centerline of streets. Therefore, the project is not entitled to the point for this Section.

The proposed layout of the project creates a short block between West Edmundson Avenue and the unnamed cul-de-sac on the west side of Piazza Way. The distance between street centerlines measures approximately 215 feet. Therefore, the project is not entitled to the point for this Section.

The applicant is requesting the full two points under Section B.4.b of this category. A project may receive a point under this category if the project layout "avoids the creation of undesirable situations such as double frontages, utility easements in rear or side yards of private property ..."

The proposed project layout has an existing 40 foot easement in the rear yards of lots 31 thru 45. Therefore, the project is not entitled to the point for this category.

Upon review, staff is recommending no adjustment in the project's final score. The attached project narrative contained evaluation criteria for each of the above categories, along with the applicant's original scoring comments and the staff evaluation comments. The attached memorandum dated March 25, 2003, and accompanying Planning Commission minutes outline the previous scoring approved by the Planning Commission for this project and others.

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL DENYING AN APPEAL APPLICATION UNDER THE RESIDENTIAL DEVELOPMENT CONTROL SYSTEM FOR OPEN/MARKET RESIDENTIAL PROJECTS IN FISCAL YEAR 2004-05 AND FISCAL YEAR 2005-06. APPLICATION AP-03-03: WEST EDMUNDSON – PINN BROTHERS INC.

WHEREAS, the City Council received three application appealing the April 22, 2003 Planning Commission evaluation and award of residential building allotments pursuant to Chapter 18.78 of the Morgan Hill Municipal Code; and

WHEREAS, pursuant to Section 18.78.130 of the Municipal Code, the City Council serves as the appellate body in matters relating to the evaluation and award and issuance of allotments under the Residential Development Control System; and

WHEREAS, the first appeal request, application AP-03-01: E. Dunne - Dempsey, was heard by the City Council at a meeting held on May 28, 2003; and

WHEREAS, the City Council has determined that the final project score and approved distribution should remain within the limited allotment (total allocation) established for the 2004-2005 fiscal year and 2005-2006 fiscal year as approved by the Planning Commission; and

WHEREAS, testimony received at a duly-noticed public hearing, along with exhibits and drawings and other materials have been considered in the review process;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MORGAN HILL THAT:

SECTION 1: FINDINGS FOR APPEAL APPLICATION AP-03-03 FOR FILE #MP-02-23: W. EDMUNDSON – PINN BROS. INC.

- A. The City Council finds that the Planning Commission correctly evaluated this project by awarding no points under Sections B2a and B2b of the Schools category. Consistent with the scoring of other projects, when crossing a collector street, in this case La Crosse Drive, crossing must occur at a signalized intersection. No signalized intersection is available for a safe crossing. The City Council therefore upholds the Planning Commission's evaluation under this category.
- B. As described in the May 28, 2003 staff memorandum on this item, the City Council finds that the project is not entitled to an additional point under Section B.5 of the category because of the significant design flaws in the Project Master Plan described in the staff memorandum. The City Council therefore upholds the Planning Commission's evaluation under this category.
- C. As described in the May 28, 2003 staff memorandum for this item, the City Council finds that the applicant is not entitled to the point requests under the Housing Needs and Housing Types categories because the project fails to provide the minimum percent of BMR and other Housing Types as prescribed in the criteria

- D. The applicant requests one point under criterion B.5 of the Quality of Construction category for overall project excellence. This criterion is a single point awarded by the Planning Commission when a project is judged by the Commission to be superior with respect to overall project excellence. Rather than score all 23 applications, the Planning Commission chose to award the point only to those projects that were in the running and had an initial score that would put them in a position to receive a building allotment. This project received a total score of 155.38 points and the lowest scoring project on the west side received a total score of 171.5 points. The City Council agrees with the Planning Commission finding that one additional point in this category would not have been sufficient to bridge the gap between the two scores. The City Council therefore upholds the Planning Commission's evaluation under this category.
- E. The applicant is requesting two points under Section B.1.f of the Lot Layout category for a superior lot layout. As described in the May 28, 2003 staff report on this item, the project received zero points for Section B.1.f because the project layout has three major design problems and three minor design problems. Upon review of these six design problems, the City Council upholds the Planning Commission's evaluation under this category.
- F. The City Council finds that the applicant is not entitled to the Circulation Efficiency category point adjustments described in the May 28, 2003 staff memorandum on this item based on the following findings:
1. The proposed on-site walkways and bike paths for the project are adjacent/redundant to the required city standard sidewalks.
 2. The proposed layout of the project creates a short block between West Edmundson Avenue and the unnamed cul-de-sac on the west side of Piazza Way. The distance between street centerlines measures approximately 215 feet.
 3. The proposed project layout has an existing 40 foot easement in the rear yards of lots 31 thru 45.

PASSED AND ADOPTED by the City Council of Morgan Hill at a Special Meeting held on the 28th Day of May, 2003, by the following vote.

AYES:	COUNCIL MEMBERS:
NOES:	COUNCIL MEMBERS:
ABSTAIN:	COUNCIL MEMBERS:
ABSENT:	COUNCIL MEMBERS:

City of Morgan Hill
Resolution No.
Page - 3 -

🔑 CERTIFICATION 🔑

I, IRMA TORREZ, CITY CLERK OF THE CITY OF MORGAN HILL, CALIFORNIA, do hereby certify that the foregoing is a true and correct copy of Resolution No. _____, adopted by the City Council at a Special Meeting held on May 28, 2003.

WITNESS MY HAND AND THE SEAL OF THE CITY OF MORGAN HILL.

DATE: _____

IRMA TORREZ, City Clerk



CITY COUNCIL STAFF REPORT

MEETING DATE: May 28, 2003

COMMUNITY INDOOR RECREATION CENTER

APPROVAL OF SUBCOMMITTEE RECOMMENDATIONS

RECOMMENDED ACTION(S):

- 1) Receive Subcommittee Report
- 2) Approve Subcommittee Recommendations

EXECUTIVE SUMMARY:

On April 23, 2003 Council appointed Council Members Hedy Chang and Greg Sellers to a Subcommittee with the purpose of meeting with staff and forming recommendations regarding four critical issues preparatory to beginning the schematic phase of preliminary design. This April 23, 2003 staff report and exhibits are attached.

The Subcommittee was given 60 days to form recommendations and return to Council. Tonight, 30 days ahead of schedule, the Subcommittee is returning to Council with recommendations. Attached is a Memorandum from Deputy Public Works Director, Mori Struve to City Manager J. Edward Tewes dated May 15, 2003 which outlines the issues discussed and recommendations formed by the Subcommittee.

The Council's decision regarding these recommendations is needed prior to beginning the schematic phase of preliminary design

FISCAL IMPACT: None

Agenda Item # 9

Prepared By:

**Dep Dir
PW/Operations**

Approved By:

Public Works Director

Submitted By:

City Manager

MEMORANDUM

DATE: MAY 15, 2003

TO: J. EDWARD TEWES, CITY MANAGER

FROM: MORI STRUVE, DEPUTY PUBLIC WORKS DIRECTOR OPERATIONS

**SUBJECT: COMMUNITY INDOOR RECREATION CENTER- SUBCOMMITTEE
RECOMMENDATIONS PREPARATORY TO SCHEMATIC DESIGN**

As directed by City Council, the appointed subcommittee consisting of Council Members Hedy Chang and Greg Sellers met with staff on May 12, 2003. Staff members attending were: Julie Speir, Jim Dumas, and Mori Struve.

Below are the issues discussed and recommendations formed by the subcommittee.

PROJECT BUDGET- LEEDS AND APPROPRIATE COST CONTINGENCIES

Issue-Leeds: The RDA funding allocation of \$26.2 million made by Council in January 2002 was based on a programming model totaling 50,204 square feet of building space. Since then two issues have arisen which could potentially have significant impacts on the project budget. 1) Council's adopted policy in April 2002 on Leadership in Energy and Environmental Design (LEEDS). The policy states that, "City staff and consulting architects should seek to design a project that at least reaches the gold level on the LEED Rating System or its equivalent using a different system". Attaining a gold level of LEEDS will add up to \$30,000 in design costs, and a up to 10% in construction costs (\$1.2 million).

Recommendation: Approach LEEDS by selectively pursuing a design which brings the greatest possible return on capital investment while moving *toward*, but not necessarily attaining, the certification level. This is to be done while staying within the present project budget.

Issue- Cost Contingencies: The project budget includes a 9% design and construction contingency and a 25% soft cost contingency. Consider the need to increase these to 20% and 30% respectively.

Recommendation: Increase the design and construction contingency to 10% by reducing the projected escalation costs. Soft cost contingency to remain at 25%.

PROJECT SCHEDULE

Issue: Consider acceleration of the proposed project schedule shown as Exhibit C in the April 23, 2003 staff report.

Recommendation: Accelerate the schedule by 5 months as shown on Exhibit A attached to this memorandum. This schedule is appropriate because: 1) Significant complexities will be required in the building design/construction of the Indoor Recreation Center which includes the aquatics component 2) The recommended project budget includes a design and construction contingency limited to 10% of construction costs. This requires a schedule limiting the risks of unforeseen costs. The risk level associated with the proposed schedule is appropriate given the limitation of a 10% design and construction contingency.

PROCESS OF INVOLVING APPROPRIATE INTERESTS IN THE DESIGN REVIEW PROCESS

Issue: Establish a process to involve all appropriate interests in the design review process.

Recommendation: Expand the 2 Council Member Subcommittee to include up to 3 Parks and Recreation Commission Members and 1 representative of both the Senior and Youth Advisory Committees. The Subcommittee regular meeting time will be 3:30-5:00 PM at critical decision points throughout the design review process. Each Subcommittee recommendation will be subject to Council approval.



CITY COUNCIL STAFF REPORT

MEETING DATE: May 28, 2003

Agenda Item # 10

Prepared By:

BAHS Director

Submitted By:

City Manager

TITLE: BUSINESS TERMS FOR THE ACQUISITION OF 16200 VINEYARD FOR A POLICE FACILITY

RECOMMENDED ACTIONS: Approve the business terms and direct the City Manager to prepare and negotiate the necessary agreements for the acquisition and lease of 16200 Vineyard Blvd.

EXECUTIVE SUMMARY: In February 2003, the City Council directed staff to begin discussions with the owner, The Nicholson Company, regarding the acquisition of the Vineyard facility for a police station. In March 2003, the City Council considered other locations, but determined that they were less desirable than the Vineyard facility. We have met with the owner several times and agreed upon a structure which includes a lease agreement, purchase agreement, and professional services contract with The Nicholson Company. The combined agreements enable us to publicly bid the project while expediting the design process and providing the City with a price guarantee that the cost of the tenant improvements would not exceed \$1,750,000. Attached is a letter detailing the agreed upon business terms. For your convenience, we have also attached the staff report from February 19, 2003 pertaining to this item.

The key business terms are as follows:

- 1) The purchase price is \$8,150,000. This price includes the \$6,400,000 asking price and the \$1,750,000 for the tenant improvements.
- 2) The lease is for \$1 per month plus utilities during the construction period. The lease would terminate upon purchase of the building. The close of escrow (COE) would occur within 30 days of the completion of the tenant improvements by the City.
- 3) Under the price guarantee, at the COE, the purchase price would be reduced by the awarded bid amount of the tenant improvements (TI's) plus/minus any applicable change orders. If the bids come in at less than \$1.75M, the City receives all the cost savings as the purchase price will still be reduced by \$1.75M. The City is responsible for financing the TI's.
- 4) The price guarantee and expedited design process is achieved by entering into an agreement with The Nicholson Company to provide architectural design and engineering services and construction management services for the tenant improvements in an amount not to exceed \$450,000. The total acquisition and improvement cost to the City is \$8.6M not including furniture, fixture, and equipment, moving costs, or soft cost contingency which are estimated at a total of \$900,000. The total cost is about \$300,000 higher than the estimate presented in February due to public bidding requirements and more refined cost estimates.
- 5) There are no holding costs to the City and no downpayment required.
- 6) The project will pay prevailing wages and there is about 7,500 sq. ft. available for lease for other uses.

With the City Council's approval, we would prepare and negotiate the necessary legal documents. These agreements would be brought back to the Council in June for approval. At that time we will also discuss the proposed financing plan for the project.

FISCAL IMPACT: None at this time, but when the legal agreements are considered for approval we will present a more detailed cost estimate at that time.